CHAPTER -I
INTRODUCTION

1.1 Background of the Study

Integrated and speedy development of the country is possible only when competitive banking service reaches nooks and corners of the country because it is not possible to develop all the sectors by the investment of funds by the government alone. Commercial bank occupies quite an important place in the framework of every economy because it provides capital for the development of industry, trade and business by investing the saving collected as deposits from public. In this way, they contribute to the economic growth of the nation. Besides this, commercial banks render numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial banks have become the heart of financial system.

The primary objective of this joint venture is always to earn profit by investing or granting loan and advances to people associated with trade, business, and industry etc. that means they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.

Therefore, Bank is a financial institution that collects idle funds, mobilizing them into productive sector. This in return turns out to be an overall development of the country depending on the performance of the bank.

Bank, a financial institution, is playing a vital role in the economic development of the country. The functions of banks are not only accepting deposit and granting loans but also, including wide range of service to the different strata of society, to facilitate the growth of trade, commerce, industry, and agriculture of the national economy. In the absence and insufficiency of banking and financial facilities, the growth of the economic development becomes slow. However, bank is a resource for the economic development, which maintains the self-confidence of various segments and advances credit to the people

The word bank was originated from the Italian word ‘banco’ which means ‘bench’. In the earlier stage, band was the place for keeping and lending money. But with the evolution of transaction and globalization, the meaning and function of bank is gradually changed.

According to the Concise Oxford Dictionary, the term bank is defined, as “A bank is an establishment of the custody of money which it pays out on customer’s order”.

Therefore, bank is the financial institution that deals with the financial situation of the society. It accepts deposits, and invests those deposits as loan for individuals, corporate, government and private organizations to earn profit as interest. So, bank works as a lively body of the country which helps in economic and social development of a country. The function of bank is not only depositing and lending money but also remittance of money, providing letter of credit, bank guarantee, etc. Bank has also developed credit money such as Visa card, Debit Card, Credit card, etc. to facilitate the general public. ATM (Automatic Teller Machine) and SCT (Smart Choice Technology) is the latest form of credit money issued by bank. So, bank can be considered as the backbone of overall economic development of a country.

1.2 Origin of Bank in Nepal

Like other countries, landlords, moneylenders, merchant, goldsmith etc are the ancient bankers of Nepal. Through establishment of banking industry was very recent; some crude banking operations were in practice even in the ancient time. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar, a Sudra merchant of Kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. The establishment of “Tejarath Adda” during the year1877 A.D. was the first step in institutional development of banking sector in Nepal. Tejarath Adda did not collect deposit from public but grated loans to public against the collateral of bullions. Consequently the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and touch the remote non-banking sector in the economy. Reviewing this situation, the 'Udyog Parishad' was constituted in 1936 A.D. One year after its formulation, it formulated the 'Company Act' and 'Nepal Bank Act' in 1937 A.D. Nepal Bank limited was established under Nepal Bank Act in 1937 A.D. as a first commercial bank of Nepal with 10 million authorized capital. Being a commercial bank, it was natural that Nepal Bank limited paid more attention to profit generating business. But, it is the onus of government to look into neglected sectors too.

Having felt need of development of banking sector and to help the government formulate monetary policies, Nepal Rastra Bank was set up in 1956 A.D.[2013.01.14 B.S.] as a central under Nepal Rastra Bank Act 1956 A.D.[2012 B.S.]. Since then, it has been functioning as the government's Bank and has contributed to the growth of financial sector.

Being the central bank, NRB had its own limitation and reluctance of NBL to go to the un-profitable sectors was not illogical. To cope with these difficulties, government set up Rastriya Banijya Bank in 1966 A.D. [2022. 10.10 B.S.] as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both urban and rural areas but customers failed to have taste of quality/ competitive service because of excessive political and bureaucratic interference. For industrial development, Industrial Development Center was set up in 1956A.D. [2013 B.S.] which was converted to Nepal Industrial Development Corporation [NIDC] in 1959 A.D. [2016 B.S.]. Similarly, Agricultural Development Bank [ADB] was established in 1976 A.D. [2024.10.07] with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

After the restoration of democracy in Nepal, the government took the liberal policy in banking sector. As an open policy of the NG's to get permission to invest in banking sector from private and foreign investor under commercial bank act 1974A.D.[2013B.S.] , different private banks are getting permission to establish with the joint venture of other countries.

1.3 List of Financial Institutions in Nepal

Table -1.1

List of Financial Institutions in Nepal

S. No.	Name of institution	Total
1	Central Bank	1
2	Commercial Bank	24
3	Development Bank	29
4	Finance Companies	70
5	Micro Credit & Development Banks	11
6	Saving & Credit Co-operatives	19
7	Non-Government Organizations	47

Source: Banking and Financial Statistics (Mid-July 2006, No. 47)

1.4 Concept of Commercial Bank

Commercial banks are those financial institutions, which deal in accepting deposits of persons and institutions and in giving loans against securities. Moreover, these banks also provide technical and administrative assistances to industries. The main purpose of priority sector investment scheme is to uplift the backward sector of the economy.

Commercial banks, in current year, present a new picture of innovation in practice of wider horizon and have new enterprises. The most remarkable diversification of banking function is the bank's increasing participation in medium and long term financing industries and other sector. So, they are not only financial institutions of finance, agriculture and industry, and other economic activities but are more than financial institution in the sense that they motivate saving, create deposit and make the subsequent distribution of such accumulated funds. It has the power to create money and destroy money, within limits, through the use of loans and demand deposits. Thus, commercial banks are the hearts of the financial system. They hold the deposits of general public, government establishments, and business units. They make funds available through their lending and investing activities to the individuals and groups.

The American Institute of Banking has laid down four main functions of the commercial banks such as,

- Receiving and handling deposits
- Handling payments for its clients
- Issue of Letter of Credit
- Making loans investments
- Holding custody of valuables
- Operating safe deposits vaults
- Helps in foreign exchange
- Credit in money by extension of credit
- Miscellaneous Functions

Commercial Bank Act 1975 A.D. [2013B.S.] defined, "A commercial bank is one which exchange money, deposits money, accepts deposits, grants loans and performs. A commercial banking function which is not a bank meant for co-operatives, agriculture, industries or for such specific purpose." [Commercial Bank Act 2013 B.S.] At the present scenario there are following Commercial Banks in Nepal. They are presented below:

Table – 1.2

Commercial Banks in Nepal

S.N.	Commercial Bank	Operation Date (A.D.)	Head Office
1	Nepal Bank Ltd.(NBL)	1937/11/15	Kathmandu
2	Rastriya Banijya Bank (RBB)	1966/01/23	Kathmandu
3	NABIL Bank Ltd. (NABIL)	1984/07/16	Kathmandu
4	Nepal Investment Bank Ltd. (NIBL)	1986/02/27	Kathmandu
5	Standard Chartered Bank Nepal Ltd. (SCBN)	1987/01/30	Kathmandu
6	Himalayan Bank Ltd. (HBL)	1993/01/18	Kathmandu
7	Nepal SBI Bank Ltd. (NSBI)	1993/07/07	Kathmandu
8	Nepal Bangladesh Bank Ltd. (NBBL)	1993/06/05	Kathmandu
9	Everest Bank Ltd. (EBL)	1994/10/18	Kathmandu
10	Bank of Kathmandu Ltd. (BOK)	1995/03/12	Kathmandu

11	Nepal Credit & Commerce Bank Ltd. (NCCBL)	1996/10/14	Siddharthanagar
12	Lumbini Bank Ltd. (LBL)	1998/07/17	Narayangadh
13	Nepal Industrial & Commercial Bank Ltd. (NIC)	1998/07/21	Biratnagar
14	Machhapuchhre Bank Ltd. (MBL)	2000/10/03	Pokhara
15	Kumari Bank Ltd. (KBL)	2001/04/03	Kathmandu
16	Laxmi Bank Ltd. (LXBL)	2002/04/03	Birgunj
17	Siddhartha Bank Ltd. (SBL)	2002/12/24	Kathmandu
18	Agriculture Development Bank (ADBN) Ltd.	2006/03/16	Kathmandu
19	Global Bank Ltd.*	2063	Birgunj
20	Citizens bank International. *	2064	Kathmandu
21	Sunrise Bank Ltd. *	2064	Kathmandu
22	Prime Commercial Bank Ltd. *	2064	Kathmandu
23	Bank of Asia*	2064	Kathmandu
24	Kist Bank Ltd. *	2066	Kathmandu
25	NMB Bank Limited*	2065	Kathmandu

* indicates the currently operated Commercials Banks in Nepal F/Y 2006-2009.

Source: Banking and Financial Statistics (Mid-July 2006, No. 47

Source: Visited related banks and website

There were 18 commercial banks in Nepal in F/Y 2005/06. The ADBN, established in 1967, has been upgraded by Nepal Rastra Bank as "A" class licensed institution on 16th March 2006. The financial activities of ADBN are divided in commercial banking and development banking. The transaction of commercial banking has been consolidated with commercial banks.

1.5 Functions of Commercial Bank

Basically the functions of commercial Bank all over the world are the same. The function of commercial banks can be classified into following main headings: -

1. **Receiving deposits:** - Receiving deposits from the public is the first function of all commercial banks. For the benefit and convenience of depositors, it has opened different A/c.

2. **Granting Loans: -** Bank grant loans to general public and to trading and industrial organization against the securities of gold, silver, land, buildings, share & debenture of company etc.

3. **Discounting of the bill: -** commercial banks discount the bills and promising notes of businessman so as to facilitate them in their business.

4. **Transfer of Money from place to place: -** Money is remitted from one place to another and even from one country to another by means of drafts, telegraphic/ telex/transfer, mail transfer, etc.

5. **Miscellaneous Function: -** Opening letter of credit, dealing in foreign exchange, insurance of traveler's cheques, underwriting of capital issues, safe custody of valuables, furnishing of guarantee on behalf of customer, etc.

1.6 Introduction of Concerned Banks

1.6.1 Kumari Bank Limited

Kumari Bank Ltd was established in 2001, April 03 with an objective of providing modern and sophisticated banking facilities. The bank is represented through 9 points across the country, 5 outside and 4 inside the valley. The bank has adopted Globus Banking Software, developed by Temenos NV, Switzerland, to provide centralized data base system to all branches. It is driven with a guiding motto of **"we do it".** Within the short span of 7 years the bank has been able to accomplish as a distinguished financial institution in providing world class service to the valued customers at a higher satisfaction level. The bank is able to embrace total quality management and good corporate governance. The bank seems to be total customer-oriented and customer satisfaction is their foremost priority. The bank has been providing ATMs (including 11 own ATMs) and POS (Point of Sale) terminals both in Nepal and India.

Capital Structure

Authorized Capital	NPR 1,000,000,000.00
Issued & Paid-Up Capital	NPR 750,000,000.00

Products:

- Deposits
- Providing varied nature of loans
- International trade and finance
- Letter of credit
- Remittance
- Foreign Exchange
- Credit cards
- Debit cards
- Internet banking
- Mobile banking
- Auto sweep

Branches:

- Head Office – Govinda Bhawan, Putali Sadak, Kathmandu.
- New Road Branch – Pratab Bhawan, New Road, Kathmandu.
- Gongabu Branch – Kantipur Mall, Kathmandu.
- Lalitpur Branch – Kumaripati, Lalitpur.
- Bitatnagar Branch - Byapar Sangh Building, Goshwara Road, Biratnagar.
- Birgunj Branch – Adarsha Nagar, Birgunj.
- Birgunj Branch – Dry Port.
- Pokhara Branch - New Road.
- Itahari Branch – Pathivara Market, Dharan Road , Itahari.

Promoters

NAME	DEGIGNATION
Mr. Noor Pratap JB Rana	Chairman
Mr. Santoo Shrestha	Director
Mr. Lalit Jung Shahi	Director
Mr. Samson J.B. Rana	Director
Mr. Surendra Bahadur K.C. (Khadka)	Director
Mr. Jagadish Prasad Chaudhary	Director

Main Focus Area

The bank is determined to providing what they call the complete banking concept by furnishing a wide range of traditional and innovative banking products and services to the market. However the bank is pursuing aggressive policies and mainly focusing on consumer banking products such as internet banking which is going to be the buzz word in Nepali banking arena soon. beside this the bank is providing various kinds of loans such as vehicle loan, educational loan, golf loan, consumer product financing, home loan and travel loans.

The bank is striding ahead with a mission to provide exclusive service to its customers with higher satisfaction level. Most importantly the bank is trying to optimize its assets to achieve sound business growth in future. The bank has introduced a brand new scheme for its saving account holders of providing a two and a half storey house who maintains a minimum balance of NPR25,000 or multiples should be maintained in saving account for which one coupon will be granted per month for each NPR25,000.

1.6.2 Machhapuchchhre Bank Limited

The bank boasts as the first commercial bank to be established in the western part of Nepal in Pokhara. The banking operations started as a regional bank from Pokhara in 1998.The bank is catering its valuable services to its customers with utmost dedication and devotion. The credit goes to the bank for identifying huge business potential outside the valley. Furthermore the bank is performing well according to its set goals and objectives. It has also opened a full-fledged banking branch in a remote place like Jomsom.The bank has introduced centralized banking software named GLOBUS BANKING SOFTWARE by Temenos NV, Switzerland.The guiding philosophy of the bank is “we value your time”. The philosophy conspicuously states its dedication and desire of the bank to be a service provider to its customers. Since its initiation six years back the bank has been consistently improving its financial status responsibilities towards its shareholders.

CAPITAL STRUCTURE:

Authorized Capita	Rs. 1,000,000,000
Issued Capital	Rs. 550,000,000
Paid - up Capital	Rs. 550,000,000

Products

- Deposits
- High loan purchase
- International trade Service
- Safe Deposits Lockers Facilities
- Foreign Exchange
- ATM cards
- Debit, Credit and ATM Card
- 365 days banking

Board of Directors

S. No.	Name	Designation
1.	Mr. Surya Bahadur K.C	Chairman
2.	Mrs. Geeta Shrestha	Director
3.	Mr. Kishor Kumar Shah	Director
4.	Mr. Prakash K.C	Director
5.	Mr. Praneswar Pokharel	Director

Branches

- Nayabazar, Pokhara, Kaski(Head Office)
- Putalisadak,Kathamandu (Corporate Office)
- Devkota Chowk, Bhairawa(Bhairawa Branch)
- Banepa,Kavrepalanchok
- Mahenrapul(Mahendrapul Branch)
- Rambazar,Pokhara(Rambazar Branch)
- Jomsom, Mustang(Jomsom Branch)
- Link Road, Ghantaghar(Birgunj Branch)
- Main Road, Damauli Bazar (Damauli Branch)
- Bagar, Pokhara(Bagar Branch)
- Tribhuvan Chowk, Banepa(Banepa Branch)
- Newroad Branch, Kathmandu
- Lalitpur Branch, Gwarko, Lalitpur.
- Baluwatar Ext. Counter, Kathmandu
- Thapathali Ext. Counter, Kathmandu

Main Focus Area

The bank is mainly focusing its policy for selective and consumer lending. In keeping with the political and economical scenario of the nation the economic environment is still apprehensive in its investment and lending procedure. However after the peace negotiation in between the government and the Maoist the table has turned completely and new opportunities seems to arise. The bank is trying to give high priority to international banking and appropriate banking management.

Furthermore the bank is interested to minimize its dependency on corporate deposits and encourage small and individual deposits to increase saving deposits and diversify its deposit structure. The royal saving scheme has played a tremendous role in attracting individual account holders and it’s giving fruitful results to its beneficiaries. Apart from this, the bank is providing various kinds of loan like educational loan, foreign employment loan, personal loans, housing loan. Since the increment in foreign employment the bank is playing a crucial role in focusing on international remittances and trying to strengthen its international relations.

1.6.3 Siddhartha Bank Limited

Siddhartha Bank Limited is one of the very good products of renowned business personnel of Neal. The bank was registered in Company Register Office on 12th of Aashwin 2058, as per the Company Act 2058. The bank got approval to work as A class commercial bank as per Commercial Bank Act 2031, from Nepal Rastra Bank on 9th poush 2059. It commenced its operation from 10th of Poush 2059 with its paid up capital of 350 Million. The bank went through Initial Public Offering (IPO) of its ordinary shares in 2062 and issued its 30% shares of issued capital to general public. Currently the bank has total paid up capital of 500 Million.

The bank is fully aware of NRB's directives of making its paid up capital of 1000 Million by the end of Asadh 2066.For meeting this objective the bank has managed its capital adjustment fund of Rs. 0.75Million. Also for raising its paid up capital, this year only, the bank has declared issuance of right share in the ratio of 5:1 of worth 1 Million.

Products and Services

The bank has been found providing varieties of its products and services to the customers. The bank has prepared following products and services for its customers:-

Deposit Products

- Current Deposit
- Call Deposit
- Saving Deposit

Siddhartha Bachat, with minimum balance 1,000/-, 5% interest on minimum balance.

Siddhartha Bishes Bachat, with 50,000 minimum balance, 4.5% interest on daily balance, free coverage of accidental death insurance up to 500,000, free debit card and other facilities in loan processing, no limit in deposit and withdraw, any branch banking service

- Fixed Deposit
- Foreign Currency Deposit
- Siddhartha US $ saving account
- Fixed Deposit

Loan Products

The bank has designed wide varieties of loan scheme for all types of customers. It has designed following loan Scheme:-

Business Loan

Under Business loan scheme it provides working capital loan, term loan, Import loan, Import bills discounting, export loans, Consortium financing, Bills purchased etc.

Trade Financing

Under Trade finance Advance payment, documentary collection, Import Letter of Credit, Export Letter of Credit is available in the bank.

Bank Guarantee

Under Bank Guarantee Bid bond, Performance bond, Advance Payment guarantee and shipping indemnity are available in the bank.

Personal and retail banking

Under this scheme the bank has been availing Siddhartha home lone at 8-11%, vehicle loan at 8.5-11%, education loan at 9-10% and Personal loan at 9-11% per annum interest rates. The bank also provides loan against fixed deposit receipts.

Remittances

Under Remittances Demand draft, SWIFT transfer, Travelers cheques and managers cheques are available.

Other Services

The other very important products and services offered by the bank to its customers are Debit /ATM card facilities, safe deposit locker, bill pay/ utility payment.

The all above stated products and services are available in all the branches of the bank.

Branches

Head Office	Kamaladi, Kathmandu
New Road Branch	New Road, Kathmandu
Tripureshwor Branch	Tripureshwor,Kathmandu
Birathnagar Branch	Birathnagar, Morang
Birgunj Branch	Biragunj, Bara
Pokhara Branch	Pokhara, Kaski

Promoters

Name	Designationa
Chiranjilal Agrawal	Chairman
Suresh Chandra Agrawal	Director
Tara Chand Kedia	Director
Ratan Lal Kedia	Director
Bishwonath Shah	Director
Mahesh Prasad Pokharel	Director
Hemanta Gyawali	Director

Main Focus Area

In the modern competitive environment, a bank can survive if it best provides services to its customers. Since the bank is fully concerned with understanding customer's wants and desires, its all services and products are found being best designed for customer's satisfactions. The bank is providing 365 days banking services to its customers including evening counter services from its important branch offices.

As per its popular slogan" Our business is to understand your business" the bank is found very updated with modern information technologies and innovative in understanding customer's desires and providing modern banking. Recently the bank has purchased software for providing internet banking to its customers. It has also started providing its SCT ATM services from Biratnagar branch.

It has been coming up with different types of deposit schemes to provide optimum returns to its depositors. It has been providing loans to its customers under different headings as per their needs. Personal Loan, Education Loan, Home Lone, Vehicle Loan etc are very popular loan scheme being provided by the bank.

The bank has also been focused in having most efficient manpower in the organization. For this it has been providing training and arranging seminars for the employee. It has been keen focused in having the most disciplined and the most transparent financial system in the bank.

In this way, by making best portfolio of the investment it has been focused to minimize the risk, by providing quick, most reliable and the most disciplined services to the customers it has been focused to win customer's trust, and by updating itself with latest technological innovations it has been focused to provide modern banking to its valuable customers.

1.7 Statement of Problems

KBL, MBL, and SBL banks are the reputed commercial banks in the country. These banks are providing full fledge banking service to its customers. But in this present competitive market, there are growing several banks prevailing in the country. By 2010AD, Nepal Rastra Bank provides permission to access the International Bank in the country and Nepalese Commercial Banks would be competed with international Banks. Therefore, their sustainability for long span is questionable in the market. What types of banking products and services International Banks will offer to the customers and that products & services can provide to the its customers by Nepalese Commercial Banks at the same cost of International Banks? If Nepali banks are not able to provide the best banking services to their valued customers, then their existence in the market would be questionable. These banks are also facing problem of excessive market competition with other commercial banks. So, now they must be well prepared and have to strengthen competency to achieve productive output by financially strengthen & optimum utilization of resources. The management must focus on implementation of effective and appropriate action plan, strategies, and control mechanism.

Therefore, this study identifies its statement of problem as the CAMEL analysis of commercial banks of Nepal with reference to Kumari Bank Limited, Machhapucchre Bank Limited and Siddratha Bank Limited. The study will attempt to find out the capital structures, Assets, Management, Earnings and liquidity positions of KBL, MBL and SBL.

1.8 Importance of the Study

Importance of this study is financial performance analysis will be to the respective management of owners of the selected banks. They will be able to analyze their strong and weak points. They can also speculate as to how to improve their position by some suggestions and recommendations provided in the report. Similarly, they will be able to trace the difference in their performances from their immediate competitors, as the three banks taken for study are similar in structure, size, capital, services, etc. Likewise, shareholders of the banks can also gain by the report. They are concerned with the banks' present and future profitability. They are interested in the banks' financial position to the extent it influences the banks' earning. They would like to make an analysis of the financial position to know how safe they are. Debenture holders will also be interested, up to the extent of the interest paying capability of the bank. Employees of the banks can gain from this report by knowing about profits, since it affects the bonuses and other incentives and they can evaluate if they are being treated approximately in the payment matters as compared to other banks. Depositors and customers as well as public can also benefit from it by having a choice between the three banks for their banking transactions.

1.9 Objectives of the Study

In the present situation, there are so many banks and so many branches of every bank in a developing country like Nepal. Therefore, the competition is very tough between these banks. Hence, the main objective of the study is to find out the individual and comparative financial position of three selected banks (i.e. Kumari Bank Ltd, Machhapuchchhre Bank Ltd and Siddhartha Bank Ltd.)

The objectives of the study are:

- To evaluate the financial performances and financial analysis of Kumari Bank, Machhapuchchhre Bank and Siddhartha Bank Ltd through CAMEL (C = Capital adequacy, A = Assets, M = Management, E = Earnings & L = Liquidity.) and evaluate.
- To compare the financial performance of these three banks.
- To suggest & recommend major findings.

1.10 Limitations of the Study

The limitations of the study are pointed out as follows:

- The research is for the partial fulfillment of the requirement of the Master Degree of Business Studies, thus it may have limitations in terms of complete information needed to meet the research objectives fully.
- Some of the information of the banks were confidential and thus could not be included in the report.
- Annual reports of the banks for fiscal year 2064/65 are not yet published and thus the analysis was based on the previous years' figures.
- The whole study is based on the data of four year period from 2060/61-2063/64 and conclusion drawn confines only to the above period.
- Study has considered only three banks namely Kumari Bank ltd., Machhapuchchhre Bank ltd., and Siddhartha Bank ltd.
- Accuracy depends upon the data provided by the organization where the degree of faithfulness depends upon concerned authority.
- Report is based on annual report published by the concern bank.
- Only few statistical methodologies are considering for computation and analyze the data.
- Since the head office of MBL is out of the valley, it lacks to provide adequate and reliable information.

- Unnecessary delay in getting appropriate information and data.

1.11 Organization of the Study

The study has been organized to five different chapters. They are briefly mentioned here.

Chapter-1 Introduction

This introduction chapter contains the background of the study, introduction of concerned banks, objectives of the study, statement of the problems, Importance of the study, limitation of the study.

Chapter-2 Review of literature

This chapter includes conceptual review, introduction of banks under review, their products and services offered in the market and review of related studies.

Chapter-3 Research Methodology

This chapter deals with research methodology used to evaluate the financial performance of banks under review. It includes research design, source of data, data collection procedure/method, population and sample, mathematical tools and financial ratio analysis.

Chapter-4 Data Presentation and Analysis

Under this chapter deals with presentation and analysis of data, this consists of financial and statistical tools. Financial tools consist of ratio analysis, which involves liquidity ratio, profitability ratio, asset management ratio and others. Statistical tools consist of trend analysis.

Chapter-5 Summary, Conclusion and Recommendations

This chapter covers summary, conclusion and recommendations and provides some valuable suggestions to the suggested banks.

CHAPTER II
REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the history of the commercial banks. Every study is very much based on the past knowledge. The past knowledge or previous studies can not be ignored as it provides foundation to the present study. Therefore, this chapter has its own importance in this study. This chapter is divided into the following parts:

2.1 Conceptual Review: Introduction to Bank

Bank simply refers to an institution which deals with money by accepting various types of deposit, disbursing loan and rendering other financial services. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of the modern society.

As per banking regulation act of India- “Banking means the accepting for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise, and withdraw able by cheque, draft or otherwise”

As per U.S. Law- “Any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank”

Commercial Bank Act 1975 A.D. [2013B.S.] defined, “A commercial bank is one which exchange money, deposits money, accepts deposits, grants loans and performs. A commercial banking function which is not a bank meant for co-operatives, agriculture, industries or for such specific purpose.” [Commercial Bank Act 2013 B.S.]

2.2 Nature and Importance of Banks

Banks are the principal source of credit to household: individuals and family, business: all forms and local unit of government. Furthermore, they are the source of financial information, planning and concealing as well.

Banks deal with money by accepting various types of deposits, disbursing loans and investing in productive sectors and rendering other financial services as the primary function. Banks are channels between surplus and deficit and thus, they are the bridge of unutilized scattered fund to productive sectors.

Commercial banks play an important part for economic development of a country as they provide capital for the development of industry, trade and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and their social life.

2.3 History and Evolution of Banking

Bank of Venice, set up in 1157 in Venice, Italy is considered to be the first modern Bank. Subsequently other banks such as Bank of Barcelona and Bank of Genoa was established. Similarly, Bank of Hindustan is considered as the first bank in India.

In context to Nepal, jeweler, merchants and moneylenders were the ancient bankers of Nepal. However, in B.S. 1933, Tejarath Adda was established during the Tenure of P.M. Ranoddip Singh. It was the first step towards the institutional development of banking in Nepal. It didn't collect deposits from the public but gave loans to employees and public against bullion.

However, the trend of modern Banking started in Nepal in B.S. 1994 with the inception of Nepal Bank Limited. It had the Herculean responsibility of attracting people toward banking sector from pre- dominant money lenders net and of expanding banking services. Nepal Bank Limited was addressed by the Nepal bank limited Act. Nepal Rastra Bank was set up on B.S. 2013 as a central Bank under Nepal Rastra Bank Act 2012 B.S (now under NRB act 2058). The main function of NRB is to ensure a robust health of financial institutions. Similarly, Rastriya Banijya Bank was established in B.S. 2022, as a fully government owned Commercial Bank to cope with the difficulties of NRB and NBL.

Despite all the efforts of the government, financial sector was found sluggish. However, the inception of Nepal Arab Bank Limited in 1984 as a first joint venture Bank proved to be a milestone in the history of banking. Nabil Bank gave a new ray of hope to the sluggish Financial Sector. Nabil launched its operation with the marketing concept i.e. 'customer is the king'. The same marketing concept of Nabil forced the bank in operation to be more customers oriented and led the influx of commercial banks. Having observed the success of Nabil Bank based on the marketing concept and also because of liberal policies adopted by the governments, other commercial banks came in to existence.

In Nepal, though it’s been a long time since commercial banks have established, they are not being able to grow to a satisfactory level. The evolution and development of banking industry is relatively slower in Nepal as compared to other nations.

At present there are 23 commercial banks that together contribute to the Nepalese economy. All commercial banks are regulated by NRB.

2.4 Introduction of Banks under Review

A. Kumari Bank Limited

Kumari Bank Ltd was established in 2001, April 03 with an objective of providing modern and sophisticated banking facilities. The bank is represented through 9 points across the country, 5 outside and 4 inside the valley. The bank has adopted Globus Banking Software, developed by Temenos NV, Switzerland, to provide centralized data base system to all branches. It is driven with a guiding motto of **“we do it”.** Within the short span of 7 years the bank has been able to accomplish as a distinguished financial institution in providing world class service to the valued customers at a higher satisfaction level. The bank is able to embrace total quality management and good corporate governance. The bank seems to be total customer-oriented and customer satisfaction is their foremost priority. The bank has been providing ATMs (including 11 own ATMs) and POS (Point of Sale) terminals both in Nepal and India.

B. Machhapuchchhre Bank Limited

The bank boasts as the first commercial bank to be established in the western part of Nepal in Pokhara. The banking operations started as a regional bank from Pokhara in 1998.The bank is catering its valuable services to its customers with utmost dedication and devotion. The credit goes to the bank for identifying huge business potential outside the valley.

Furthermore the bank is performing well according to its set goals and objectives. It has also opened a full-fledged banking branch in a remote place like Jomsom.The bank has introduced centralized banking software named GLOBUS BANKING SOFTWARE by Temenos NV, Switzerland.The guiding philosophy of the bank is "we value your time". The philosophy conspicuously states its dedication and desire of the bank to be a service provider to its customers. Since its initiation six years back the bank has been consistently improving its financial status responsibilities towards its shareholders.

Products:

- Deposits
- High loan purchase
- International trade Service
- Safe Deposits Lockers Facilities
- Foreign Exchange
- ATM cards
- Debit, Credit and ATM Card
- 365 days banking
- Internet banking

C. Siddhartha Bank Limited

Siddhartha Bank Limited is one of the very good products of renowned business personnel of Neal. The bank was registered in Company Register Office on 12th of Aashwin 2058, as per the Company Act 2058. The bank got approval to work as A class commercial bank as per Commercial Bank Act 2031, from Nepal Rastra Bank on 9th poush 2059. It commenced its operation from 10th of Poush 2059 with its paid up capital of 350 Million. The bank went through Initial Public Offering (IPO) of its ordinary shares in 2062 and issued its 30% shares of issued capital to general public. Currently the bank has total paid up capital of 500 Million.

The bank is fully aware of NRB's directives of making its paid up capital of 1000 Million by the end of Asadh 2066.For meeting this objective the bank has managed its capital adjustment fund of Rs. 0.75Million. Also for raising it’s paid up capital, this year only, the bank has declared issuance of right share in the ratio of 5:1 of worth 1 Million.

Products and services

The bank has been found providing varieties of its products and services to the customers. The bank has prepared following products and services for its customers:-

Deposit Products

- Current Deposit
- Call Deposit
- Saving Deposit

Siddhartha Bachat, with minimum balance 1,000/-, 5% interest on minimum balance.

Siddhartha Bishes Bachat, with 50,000 minimum balance, 4.5% interest on daily balance, free coverage of accidental death insurance up to 500,000, free debit card and other facilities in loan processing, no limit in deposit and withdraw, any branch banking service

- Fixed Deposit
- Foreign Currency Deposit
- Siddhartha US $ saving account
- Fixed Deposit

Loan Products

The bank has designed wide varieties of loan scheme for all types of customers. It has designed following loan Scheme:-

Business Loan

Under Business loan scheme it provides working capital loan, term loan, Import loan, Import bills discounting, export loans, Consortium financing, Bills purchased etc.

Trade Financing

Under Trade finance Advance payment, documentary collection, Import Letter of Credit, Export Letter of Credit is available in the bank.

Bank Guarantee

Under Bank Guarantee Bid bond, Performance bond, Advance Payment guarantee and shipping indemnity are available in the bank.

Personal and retail banking

Under this scheme the bank has been availing Siddhartha home lone at 8-11%, vehicle loan at 8.5-11%, education loan at 9-10% and Personal loan at 9-11% per annum interest rates. The bank also provides loan against fixed deposit receipts.

Remittances

Under Remittances Demand draft, SWIFT transfer, Travelers cheques and managers cheques are available.

Other Services

The other very important products and services offered by the bank to its customers are Debit /ATM card facilities, safe deposit locker, bill pay/ utility payment.

The all above stated products and services are available in all the branches of the bank.

2.5 CAMEL

2.5.1 Capital

The inception of every business starts with the requirement of fund commonly known as capital. Generally the capital structure consists of equity and debt mix. Equity refers to the fund contributed by the promoters/shareholders whereas debt is temporary way7 of raising funds without further dilution of ownership. This is mainly done by issuing bonds and debentures of various maturities. To ensure adequate capital in the banking system, NRB has prescribed the Capital Adequacy Ratio parameters on which the capital of the need to be maintained as a percentage of its risk weighted assets such as loans it has provided and the securities it holds. Thus this parameter indicates whether a particular bank has enough capital to absorb unexpected losses.

According to NRB, commercial banks have to maintain 11 percent capital adequacy ratio (CAR) for the fiscal year 2004/2005 and onwards.

Table – 2.1

Capital Fund (CF) and CAR of commercial Banks (As at July 16, 2005)

Capital fund (Rs. in million)

S. No.	Banks	CF (Rs.)	CAR (%)
1.	NBL	(7,426)	(29.53)
2.	RBB	NA	NA
3.	NABIL	1,658	12.44
4.	NIBL	1,180	11.58
5.	SCBNL	1496	15.85
6.	HBL	1541	11.01
7.	NSBL	689	9.47
8.	NBBL	235	3.35
9.	EBL	770	13.50
10.	BOK	651	11.22
11.	NCCB	256	4.73
12.	NICB	684	13.29
13.	LBL	245	6.93
14.	MBL	638	11.21
15.	KBL	645	11.21
16.	LXBL	644	20.70
17.	SBL	388	13.93

Source: The BOSS, Monthly News Paper (July 16, 2005)

The total capital fund CAR of most of the commercial banks is satisfactory except for a few commercial banks who have failed to maintain it as per the NRB directives. NRB & RBB are exempted from maintaining minimum capital adequacy as these banks are under reform process of World Bank. The main reason for the banks not being able to maintain minimum capital fund is due to the increased non-performing loans. While such increase in bad loans eat into the profit (decrease, the corresponding provision for such bad loans can not be counted as capital as NRB has allowed banks only to count their provisions for good loans as supplementary capital).

2.5.2 Assets (Loans)

This is the most critical factor in determining the strength of any bank. Primary factors that can be considered are the quality of loan portfolio, mix of risk assets and credit administrative system.

Table – 2.2

Total Loans (TL), Non-Performing Loans (NPL) and Loan Loss Provision (LLP) of Commercial Banks (As on July 16, 2008)

(Rs. in million)

Banks	TL (Rs.)	NPL %	LLP %
NBL	16876	49.64	51.27
RBB	26779	NA	NA
NABIL	10947	1.32	3.3
NIBL	10453	2.69	3.13
SCBNL	8421	2.69	3.3
HBL	13451	7.44	7.63
NSBL	6739	6.54	7.80
NBBL	9627	19.04	19.10
EBL	7900	1.6	3.56
BOK	6182	4.99	4.35
NCCB	6015	8.6	NA
NICB	4909	3.78	4.03
LBL	3685	15.23	14.09
MBL	5310	0.39	1.35
KBL	5681	0.95	1.59
LXBL	2726	1.63	2.5
SBL	2635	2.58	2.43

Source: The BOSS, lbid

Lower NPL, ratio indicates the better risk assessment and robust credit management systems in place and vice-versa. At the same time, while higher loan loss provisions indicates adequate reserve for possible loan loss and protects the balance sheets of respective banks.

The above table indicates that a number of banks have lower NPL and LPL ratios, however, there are few banks whose NP: ratios are higher than the industry average. These banks will have to focus on risk management control and should focus on recovery of bad loans.

2.5.3 Management

Good management can make and poor management can break an organization. Banks are no exception to this universal phenomenon. The Nepali banking sector has matured over the last 20 years and there is sufficient evidence of professional management being able to translate their management efficiency towards producing wonderful results for the bank. At the same time, we also have enough cases where due to poor management, banks have performed poorly. Human resource management is a key management issue. Good or bad human resource management translates into staff efficiency of a particular bank. We have attempted to analyze staff efficiency in the following table:

Table – 2.3
Staff Efficiency (Productivity) per staff of all commercial banks

(Rs. in million)

Banks	No. of Staffs	Net Profit	Prod./Staff
NBL	2912	730	0.25
RBB	5500	1278	0.23
NABIL	426	19	1.22
NIBL	353	232	0.66
SCBNL	302	539	1.78
HBL	501	308	0.61
NSBL	164	57	0.35
NBBL	410	(750)	(1.83)
EBL	257	171	0.67
BOK	171	0.82	0
NCCB	262	(5)	(0.02)
NICB	157	114	0.73
LBL	139	(197)	(1.42)
MBL	137	85	0.62
KBL	143	88	0.62
LXBL	108	26	0.24
SBL	56	70	1.25

Source: The BOSS, lbid

The above table is self-explanatory in terms of explaining productivity degree that exists with in individual banks. Net profit of some of the banks in the above table are extremely low or even negative, which can be attributed to higher provision of loan loss resulting from poor quality of loans. This has caused in negative per employee productivity of such bank, which is quite a paradoxical situation.

2.5.4 Earnings

An analysis of the earnings helps the management, shareholders and depositors to evaluate the performance of the bank, sustainability of earnings and to forecast growth of the bank. Therefore, following ratios have been analyzed to test earning capacity of the banks.

Table – 2.4

Net Profit, Price Earning Ratio, Earning Per Share, Return on Equity & Return on Assets of Commercial Banks.

(Rs. in million)

Banks	Net P/L	EPS (Rs.)	P/E Ratio %	ROE %	ROA %
NBL	1730	455	0.49	(23)	3.68
RBB	NA	NA	NA	NA	NA
NABIL	518	106	14.27	31	3.06
NIBL	232	400	20.25	20	1.40
SCBNL	539	144	16.29	34	2.46
HBL	308	48	19.20	20	1.11
NSBL	57	13	25.2	8	0.55
NBBL	(750)	(50)	(5.3)	(320)	0.00
EBL	171	54	16.04	22	1.4
BOK	140	30	14.29	19	1.42
NCCB	(5)	(1)	(162.16)	(2)	(0.006)
NICB	114	23	16.09	17	1.52
LBL	197	(39)	(4.57)	(80)	(4.38)
MBL	85	15	16.59	13	1.31
KBL	88	18	20.98	14	0.01
LXBL	27	4	65.69	4	0.69
SBL	70	20	0	18	2.27

Source: The BOSS lbid

The success of the bank heavily relies upon the efficiency of its management to drive the bank to earn good profits. Net profit is the major yardstick to measure such profits. Most of the commercial banks have been able to grow their net profits while some of the banks, resulting from performing loans lack of avenues for earning fee based income and operating in-efficiencies are struggling with either very low net profit or negative profits.

Earning per share indicates after tax earnings for equity shareholders after tax earnings for equity shareholders on a per share basis. It reflects the earnings power of the bank. Higher ratios show sound profitability positions of the bank. From the above table, it is found that most banks have been able to earn good EPS, while a few are unable to do so.

P/E ratio is widely used to evaluate the bank’s performance as expected by investors. It represents the investor’s judgment or expectations about growth in the bank’s earning. In other words, it measures how the market is responding towards the earning performance of the concerned banks. Higher ratios indicate greater confidence in the bank’s future. Most commercial banks have able to satisfy investors to take their positions in the market, while a few negative P/E ratio, which depicts that they are unable to create an impact in the market. This has led the market price of such bank’s share to decline significantly.

While, return on equity (ROE) indicates the profit earned on total shareholder’s fund, Return on Assets (ROA) depicts how efficiency a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio, better it is as higher ROE and ROA indicate better utilization of capital fund and total assets respectively. If we analyze the earnings ratio, it is evident that there is a direct relationship between net profit, earning per share, return on equity and return on assets. The above table depicts that all these three ratios of the banks are positively correlated.

2.5.5 Liquidity

Banks are in business where liquidity (ability to pay cash to its depositors) is of prime importance. Liquidity ratios are used to judge a banks ability to meet short term obligation. It is comparison between short-term obligations and short term resources available to meet such obligations. The following ratios are used to find out the short term solvency of the banks.

CRR = Cash Reserve Ratio

C&B Ratio = C & B Balance Ratio and

G. Sec. Ratio = Investment in Government Security Ratio.

Table – 2.5

CRR, C&B and Investment in government Security Ratio

Banks	CRR (%)	C & B Ratio (%)	G.sec. Ratio (%)
NBL	17.14	17.14	31.39
RBB	NA	NA	NA
NABIL	3.83	3.83	16.54
NIBL	9.78	9.4	13.67
SCBNL	8.77	5.75	37.25
HBL	7.86	9.09	15.59
NSBL	5.26	8.36	29.9
NBBL	8.29	11.56	18.24
EBL	1.9	10.4	20.8
BOK	5.49	8.28	2 4. 01
NCCB	9.99	9.99	4.9
NICB	11.07	16.11	19.13
LBL	6.67	10.39	10.29
MBL	8.27	13.1	10.3
KBL	3.44	7.07	17.86
LXBL	8.95	15.38	13.14
SBL	5.21	5.31	11.20

Source: The BOSS, lbid

Commercial banks are directed by NRB to maintain five percent of their deposit as CRR in NRB's account to ensure adequate liquidity. While undertaking this research, a flaw in CRR disclosure norms was found. If a public depositor goes by the published annual report, he will find some banks, as mentioned in the above table, have not maintained the minimum CRR requirement of five percent. When further research was conducted, it was found that in reality all the banks have been maintaining requisite CRR as per NRB guideline. It is only the reporting method that they have been using that is a major cause of confusion.

Actually, NRB wants banks to maintain CRR on a weekly basis. Therefore, if a bank has maintained higher NRB balance on other days of the week, it can afford to maintain lower than five percent balance on year-end day. Therefore, rather than disclosing the CRR of year- end, banks should report the exact CRR ratio maintained during the week, in which year-end falls. Deposit organizations like banks, showing lower than regulatory CRR in their annual accounts, might lead to depositors mistrust towards the bank. NRB should ensure that the banks report correct CRR ratio in their annual accounts.

Cash and bank balance to total deposit ratio is designed to measure the bank's ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that banks might face a liquidity crunch while paying its obligations; whereas a very high ratio points out that the banks has been keeping idle funds and not deploying them properly. From the above table we can see that all the banks have set aside reasonable funds to meet their payment obligations.

Banks around the world invest a significant portion of their deposits in government securities because maintaining adequate CRR and C&B balance only can not be considered sufficient for liquidity maintenance. There are occasions when a bank may need to face unexpected withdrawals. In such cases, as banks are run from depositor's money, they need to maintain adequate investment in government securities as such investments can be liquidated at any point in time. In India, The Reserve Bank of India has directed all commercial banks to maintain at least 25 percent of their deposits as Statutory Reserve Requirement (SRR), which is nothing but the ratio between investments in government securities to total deposits. In Nepal, however, there is no mandatory requirement for banks to maintain this ratio. Although in general, we have excess liquidity in the market due to increasing flow of remittance in the country, there might be few financial institutions, as can be witnessed in the above table, who might be maintaining a very low percentage of their deposits as investment in government securities. This can cause liquidity crisis or the bank's inability to honor deposit withdrawals, if it so happens it can send a very wrong signal about the entire economy. In this regard, views of K.B. Manandhar, Deputy Governor- Nepal Rastra Bank and Radesh Pant, President –Nepal Banker's Association & MD-Bank of Kathmandu were drawn for better understanding.

1. **While analyzing Capital Adequacy, we found that the main reason for certain banks not being able to maintain the minimum prescribed capital fund of 11 percent has been due to the increased non-performing loans. While such increase in non-performing loans are their profit/retained earning (the corresponding provision for such non-performing loans could not be counted as capital) as NRB has allowed the banks only to count their provisions for good loans as supplementary capital. What do you think is the prime reason for such increase in NPA for some of the banks, which has led to this serve capital adequacy problem?**

K. B. Manandhar: Before going into the question, it needs to be clarified regarding why only the provisions for good loans are counted as supplementary capital. Everybody knows as to why loan loss provisions are counted as some sort of capital, then the particular bank which is required to make such provisions due to its accumulation of bad loans, will never be effectively penalized for such performance. With regard to the reasons for the increase in the NPA, there are not one but many reasons for it. How ever, one can easily identify some of the reasons. One such principal reason is faulty and ineffective project appraisal and virtually totals tack of follow up on such projects. As a result, a significant number of projects have been found to be significantly over financed. As a result the lender is no longer able to recover the loan.

Radesh Pant: Capital adequacy ratio outlines the risk taking capacity of a bank. Application of minimum prescribed capital adequacy ratio protects the interest of depositors and promotes stability and efficiency of the financial system. High level of NPA pose a serious threat in terms of achieving the minimum prescribed capital to risk weighted assets ratio (CRAR) because of the provisions that absorbs- the capital base of the bank. For the past couple of years we have seen that some banks have not been able to properly manage their level of NPA. As a result there has been constant pressure on their capital base as well as their profitability. The prevalence of NPA in Nepal can be traced to corporate governance and credit risk management weaknesses in the financial sector. External shocks, such as relationship directed lending, underdeveloped regulatory and legal environment, over liberalizing financial sector, policy based lending, hyper-competitive environment, dwindling economy, internal conflict, and irrational politics exposed structural weaknesses has led to significant increase in NPA. Any kind of lending involves the following three stages where discretion needs to be exercised (a) Evaluation and assessment of the proposal (b) timely monitoring and evaluation, and (c) Proper assessment of exit decision and framework. I believe that some of the commercial banks in Nepal lack appropriate procedures and policies to properly manage their NPA. A rule-based approach which is generally followed by many Nepali commercial banks precludes reasonable application of mind. Evaluation of project idea and management is something that most of the banks are least equipped for. This has led to the bank acting too liberal on all projects insisting on collaterals from everyone without taking into consideration any other competencies of the entrepreneur. Constant monitoring of major economic indicators which bears direct impact on the business is another area which is completely overlooked by Nepali commercial banks. Banks with high NPA have not been able to properly assess the impact of economic indicators on the growth and sustainability of the business. Hence, I believe incompetence to properly assess the exit framework as and when required resulted in major disaster in terms of lending for Nepali commercial banks.

2. **While analyzing the market data for growth in Assets (Loan and advance), it has been observed that despite political uncertainty and conflict that existed in the country, overall the commercial banking sector was able to grow their assets base by 46 percent in there three years time (from NPR 111.90 billion 2002/03 to NPR 162.84 billion in 2005/06) what do you think are the primary drivers of this substantial growth even in such difficult times?**

KB Manandhar: this particular issue of growth in financial assets is related not only the prevailing economic conditions of the country, but also with the monetization of the economy. As you may have mentioned, by looking into the issue only from the political and conflict situation of the country, it may have looked a lit hit surprising, but looking in the issue from totally. It does not.

Radesh Pant: Although the Nepali economy was hard hit by political uncertainty and conflict situation, the economy as such was not in a state of negative growth. Due to high level of remittance earnings from abroad, the economy had some breathing space. In addition to this remittance earnings from abroad also ensured a sustainable supply of funds to the commercial banks in terms of deposits. From the period 2003 to 2005, economic activities revolve around retail activities and a major boom in housing sector. The boom in housing sector also aided in boosting the demand for construction, retail provided the foundation for growth for Nepali commercial banks during these years. Proactively exploiting this situation and investing in these sectors. Commercial banks were able to diversify their lending portfolio and achieve high levels of growth.

3. **While analyzing the price earning ratio of banks, it has been observed that market price of the bank shares are significantly higher compared to their book value. Although, PE ratio should be representing the investor's judgment or expectations about the growth in the bank's earnings, PE ratios of most of the banks are substantially higher than their earning capacity. In your opinion, what are the other factors (financial or non-financial) which are mainly responsible for such higher market price of bank share?**

K.B. Manandhar: Market prices of any shares are ultimately governed by the demand and supply of shares. A fundamentally markets should have been guided by potential income of the company, dividend distribution and financial net worth. But share market nowhere has been found to be guided only by these fundamental factors. Everywhere, some sort of speculative elements will be there. Now this speculative element in the market price and sometimes drives up the market price and sometimes drives it down.

Radesh Pant: a recent study carried out by New York University students at Stern School of Business revealed that the average PE ratio of commercial banks is 21.97. The study included 415 banks from United States and 71 banks of foreign origin. Now if we compare these figures with the P/E ratio of commercial banks in Nepal, a similar picture revealed in Nepal, the average P/E ratio ranges from 14.5 to 21.00.Except for some banks with either below average or very high above average figures, if we look at the market price of commercial banks it might seem a title out of the way considering the slackness in the Nepali economy. But if we closely dig into the issue, the reason behind share price of commercial banks is pretty evident. I truly believe that the reason behind commercial banks high share price is much more than their level of profit. Nepali banking sector has been able to achieve a level of investor's confidence which is reflected by Nepali commercial banks in terms of disclosers, good governance and alignment with international accounting standards has played a major role in enhancing banking sector performance in comparison to other industries. This has not only boosted investors' confidence but has established the banking sector as the most lucrative investing arena.

4. **It is not mandatory for banks to maintain minimum percentage of their deposits as investment in government securities in Nepal. This means, the only mandatory liquidity ratio that a bank has to maintain is CRR (which is also currently at a low level of five percent). In India, currently RBI has made it mandatory for the banks to maintain at least 25 percent of their deposit in government securities. Do you feel that NRB should implement SRR in Nepal?**

K. B. Manandhar: the system of statutory liquidity ratio (SLR) under which commercial banks are mandatory required to purchase some specified percentage of Government bonds are generally regarded as financial repression measures. The generally accepted consensus is, this type of regulation has to be done away with; the sooner the better. Fortunately, Nepal has been able to away with it much earlier. So, the question of going back into such measures obviously does not arise at all.

Radesh Pant: Some years back Nepali commercial banks also had to maintain SRR in terms of investment in government securities. The basic reason behind the mandatory SRR was to ensure that liquidity crises do not arise in the banking sector. In the case of Nepal, the economy is swollen with liquidity as a result of increasing remittance inflow and lack of matching investment opportunities. In this context, commercial banks are already holding a substantial portion of their investment in government securities. Hence at this point in time, a mandatory SRR is not required.

5. **SRR is only justified in economies where there are enough investment opportunities in comparison to inflow of funds or savings. Many feel that Nepal is already an over-banked economy. For a small market, there are already 18 commercial banks (including ADB-N). We hear that there are a few more commercial banks in the pipeline. What is your viewpoint on this?**

K.B. Manandhar: Whether the economy is over-banked or not has always been a debatable issue. One can easily give so many points either to prove it or disapprove it.

There is no clear-cut objectives criterion to judge this matter. As such the consensus on this issue is to leave the matter to market forces. Since the promoters of any type of financial institutions will have to invest a significant amount of money for establishing such entities, obviously, they will not think of opening it if it is not viable. This type of thing is best left to market forces. So the best solution is to have an open and liberal licensing policy along with a sound and effective regulatory framework[1].

Radesh Pant: I feel that market has its own way of cleaning out inefficiencies if present. Yes, looking at the current scenario, the number of financial institutions in comparison to the size of the market is extremely high. Few more commercial banks are in the pipeline. An addition to the existing number can only mean one thing which is an increased level of comparison among the commercial banks. If we look at this way, then it seems that customers are the one who will truly benefit from this. But if we look at the other side of the picture, inefficient and under- performing banks can no longer exist and will have a spill over effect on the whole financial system. Not only will the confidence in banking sector be injured but the overall financial system might face grave danger[2].

2.6 Review of Strategies

Growth strategy: Growth refers to an increase in some quantity over time. The quantity can be physical or abstract. It can also refer to the mode of growth i.e. models for describing how much a particular quantity grows over time. For commercial banks growth can be: profitability growth, growth in balance sheet and profit and loss account growth, growth in branches, diversification or increase in number of products offered, so on.

Risk Management strategy: Risk Management is a structured approach to managing uncertainty through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

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[1] The Boss –KFA Research, Sep 15 to Oct 14, 2006, P. 75-84
[2] KFA, General Banking Course material, 2007

Some traditional risk managements are focused on risks stemming from physical or legal causes. Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments.

Objective of risk management is to reduce different risks related to a pre selected domain to the level accepted by society. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics.

2.6.1 Types of Risks in Commercial Banking

The globalization has tremendous effects in the financial sectors because of extensive communication and awareness among public and business communities including commercial banks. Lot of innovation, new technologies, new products and services, new business models and different styles of business are immediately known to several parts of the world no matter from where it is originated. Hence not only customers want to have enhanced service and new products but also commercial banks are proactive to provide new services and products to its customers to stay competitive in business as well as wanted to become industry leader. Even in the developing economies like Nepal communication banks are providing very good services with the help of various financial instruments by adopting latest innovations and technologies.

Systematic Risk:

Systematic risk arises due to change in values of assets because of market dynamics and hence cannot be diversified completely by investing across the wide variety of assets, and is called non- diversifiable risk (Shuetrim, 1998).

No. of external factors such as political turmoil, economic downturn, breakthrough in technology and so on are outside the banking sector, which may or may not cause problem for banking business. In this sense, the systematic risk is variability if individual assets return caused by economic-wide shocks rather than idiosyncratic or asset specific shocks.

Credit Risk:

Risk of default by the borrower for meeting their commitment with the bank can be termed as credit risk, which affect severely into bank's profitability because of various reasons such as deteriorating quality of assets, risk of non-payment of loan, risk of payment for higher interest rate on deposits and risk of deterioration of banks image.

Credit risk for commercial banks may arise due to various reasons such as external and internal elements related to borrowers and improper regulation from concerned authorities, lack of transparency among banking sectors, lack of credit relating agency, inadequate mechanism of sharing of credit information among financial institutions etc. diversification is the major tool for controlling or managing unsystematic credit risk that has been exemplified in the study of bank mergers (Mishra. 2005).

Counterparty Risk:

The counterparty arises due to non performance of a trading partner. The non performance may arise due to various reasons such as refusal for counterparty to perform as per the agreement because of adverse price movement caused by systematic factors, or from some principals. Diversification is one major instrument that minimizes non systematic counterparty risk (Oldfield, And Santomero, 1997).

Operational Risk:

The risk associated with the problem of accurately processing the activities, setting, organizing, and taking and delivery on trades in exchange for cash is known as operational risk (Oldfield, And Santomero, 1997).

Legal Risk:

Legal risk is prevalent in financing contracting and is separate from the legal consequences of credit, counterparty, and operational risk. There may be situation when the process and procedure followed and performed earlier may be into contention due to change in legal legislation, court opinions, and new regulations (Oldfield, And Santomero, 1997).

Liquidity Risk:

The Liquidity risk is considered as major risk in commercial banks. A common meaning of liquidity risk is the assets liability mismatch meaning short term assets (liquid assets) values are not sufficient to match short term liabilities or unexpected outflow of funds. It also means inability to raise fund or deposit at normal costs or at going market rate. In extreme case, it also means difficulty in raising funds. If a bank doesn't fulfill its obligation, then bank's image will be at stake and consequently bank will be in serious trouble and there is possibility of banks run.

2.7 Review of Related Studies

2.7.1 Review of Journals/Articles

Under this heading, some related articles published in economic journals, World Bank bulletin, magazines and newspaper has been examined and reviewed.

Mr. Bishowambhar Pyakuryal in his article, "workshop on banking and National Developments", writes the present changing context of the economy calls for a substantial utilization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner. Therefore the task of utilization of resources is as much crucial as its mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits. (Pyakuryal, 1987)

Thus in his paper he has emphasized on proper utilization of resources and profitability increment.

Mr. Bodhi R. Bajracharya, in his article "Monetary Policy and Deposit Mobilization in Nepal" (Bajracharya 1991: 93), writes mobilization of domestic savings in one of the prime objective of the monetary policy in Nepal and for this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different aspects of the economy.

Dr. Sunity Shrestha in her article "Lending Operation of Commercial Banks of Nepal and its Impact on GDP" (Shrestha, 1997:23) has presented an objective to make analysis of contribution of commercial banks lending to the GDP of the country. She has set hypothesis that there has been positive impact of commercial banks' lending to the GDP in research methodology, considered GDP as the dependent variable and various sectors of lending viz; agriculture, industrial and commercial service, general and social sector as independent variables. A multiple regression technique has been applied to analyse the contribution. The multiple analyses have shown that all the variables except service sector have positive impact on GDP. While concluding, she has accepted the hypothesis that is there has been positive impact by the lending of commercial banks in various sectors of the economy except service sector economy.

Mr.Ramesh Lal Shrestha concluded in his article "A Study on Deposits and Credits of Commercial Banks in Nepal" (Shrestha, 2045) that the credit deposits would be 51.30%, other things remaining the same, in Nepal, which was the lowest under the period of review. He strongly recommended that the commercial banks should try to give more emphasis on entering new field as far as possible; otherwise they might not be able to absorb even the total expenses.

Dr. Govinda Bdr. Thapa has expressed his view in this article "Financial System in Nepal" (Thapa, 1994), that the commercial banks including the foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Similarly, loans and advances of these banks are also increasing. But compared to the huge credit needs particularly by the newly emerging industries, the banks still seem to lack adequate fund. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

2.7.2 Review of Previous Thesis

Various research works have been done by the students of MBS in aspects of commercial banks. Some reviewed previous theses are as follows;

Bindeshwor Mahato has conducted his study entitled "A Comparative Study of the Financial Study Performance of Nepal Arab Bank Ltd (currently NABIL Bank) and Nepal Indosuez Bank Ltd (currently Nepal Investment Bank Ltd)". His main objective of the study was to evaluate the financial performance of the banks comparatively and to compare the performance of the two banks.

Bachchu Kailash Kaini has conducted his study entitled “A Comparative Study of Financial Performance of Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd (currently Standard Chartered Bank Nepal Ltd)”. His main objective of the study was to analyse the bank’s deposits mobilization and investment to evaluate the financial policies of the banks.

Through his research Kaini has found that the liquidity of the both banks is below the generally accepted normal standards and the capital structure of both the banks is highly leveraged. The researcher has concluded that the operating expenses of NABIL are higher than that of Nepal Grindlays Bank and performing assets is higher for NABIL. (Kaini, 1999)

Shahadev Bhatta has conducted his study entitled “A Financial Study of Joint Venture Banks in Nepal, A Comparative Study of Nepal Grindlays Bank Ltd and Himalayan Bank Ltd” The researcher’s main objective of the study was to study the present position of the two joint ventures banks and to analyze and have the comparative study about the performance of these two banks with regard to their profitability and liquidity position.

Through his research Bhatta has found that the liquidity position of both banks is within the normal standard. But they have failed to balance a 14% of their total deposits in NRB. And Nepal Grindlays Bank Ltd is more successful in utilizing more amounts of deposits in investments than that of Himalayan Bank Ltd. Further, Grindlays is more efficient in debt mobilization than Himalayan. As per the researcher the shareholders fund to total deposits of Grindlays is greater resulting maintaining the sufficient amount as capital fund than Himalayan. The capital adequacy ratio is more consistent to Himalayan.

As per the research the capital structure of Himalayan is more leverage dint comparison to Grindlays and Himalayan is utilizing more outside funds for the benefits of their shareholders. The return on total assets and return on shareholders fund of Grindlays which is higher than that of Himalayan, shows that Grindlays is more efficient in mobilizing resources of owners in comparison to Himalayan. The researcher has concluded that Grindlays seems to be more profitable than Himalayan as on return on risk assets of it is greater than that of Himalayan. The commission and discount income to total income of Himalayan is greater than Grindlays and total interest income to outside assets of Grindlays and Himalayan seems equal to some extent. (Bhatta, 2001)

2.8 Research Gap

There are various researchers, which have been done on the current topic "Comparative study on CAMEL analysis of commercial banks." I have to prove that this research is an original one as it has studied about the three commercial bank promoted by Nepalese promoters on their financial performance through CAMEL. I have not found the any research study on CAMEL of these commercial banks. I hope this research will definitely help the new researcher to study in the corresponding subjects. It will find out the problems faced by the banks in the improvements of financial position and suggest them to overcome from such problem.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology describes the method and process applied in entire study. It sequentially refers to the various steps to be adopted by a researcher. Research methodology is the research method used to test hypothesis. The prime objective of this study is to evaluate analysis and assess the financial analysis of the selected banks. After the analysis a package of suggestions will be offered if needed be to improve the performance of the banks. The proper analysis of the study can be meaningful on the right choice of research tools that helps to come to meaningful conclusion. This study is focused on both primary and secondary data. While primary data are collected from the respective banks through questionnaire, secondary data required for the evaluation and obtained from respective annual reports of concerned banks especially from profits and loss accounts, balance sheet and other publications made by the banks. The following research procedure has been followed for the study:

3.1 Research Design

A research design is a plan for the collection and analysis of data. It includes definite procedures and techniques, which guide to sufficient way for analyzing and evaluating the study. In order to achieve the predetermined objectives of the study, both primary and secondary data have been used. This study tries to make comparison and establish relationship between two or more variables. So the research design of the study is based on descriptive and analytical study.

3.2 Sources of Data

The study is mainly based on both primary and secondary data in nature. The required information has been collected through discussion with the key personal and employee. The supplementary data and information obtained from published and unpublished official records of concerned banks, annual reports of concerned banks, booklets, journals, thesis and other organization like website of NRB and security exchange center etc.

3.3 Nature and Source of Data

The data used in the study are secondary and primary data as they have been collected from concerned authorities. For any research work, information is considered the life blood. Thus it is the major task to gather the information and data collection. To fulfill the objectives of the study primary and secondary data have been used. The methods utilized for the purpose of the collection of primary and secondary data are enumerated below:

- Observation Method
- Personal Interview Method
- Personal Investigation
- Questionnaires sent through enumerators
- Internet surfing
- Case studies, news paper and periodicals
- Publication of commercial and financial instructions
- Published and unpublished document and annual reports of bank

3.4 Population and Sample

The population is the entire group of individuals that we want information about. Furthermore, set of data consisting of all conceivable observations of a certain phenomenon. A sample contains only part of these observations. Sampling is an essential part of any research investigation. Almost all research studies involve sampling. The study is related to CAMEL analysis of Nepalese commercial banks. Now a days a number of commercial banks have been emerging rapidly, some have already been established and others are in the process of establishment. In this research study the whole commercial banks could not analyzed. Therefore, the sampling process is based on the principle that a sufficiently large number drawn at random from a population will be representative of the total population. There are 25 commercial banks currently operating in the country. Among them, KBL, MBL, & SBL have been chosen for research purposes as sample in this project work. I have chosen these banks for study due to these banks have established by Nepalese promoters in the same era with similar capital. Therefore, I want to find out the financial performances of these banks during the study period.

3.5 Method of Data Analysis

I have used the Non Statistical/Financial Tools (i.e. Ratio Analysis) for the purpose of the mathematical analysis of the data collected as well as analyzed data through Trend Analysis. The significance of financial ratio analysis may be viewed in different ways.

3.5.1 Financial Tools

Financial tools are those instrument and technique which helps in analysis of financial position of the organization. Various financial tools have been used in the research study which helps to indicate the position of the banks as targeted in the objective of the study.

3.5.1.1 Ratio Analysis

Ratio analysis is the most important tool of analysis of financial statements. It is widely used tools for financial analysis, which established the numerical or quantitative relationship between two items i.e. variable of the financial statement. It helps to diagnose financial health of the company. Financial tools are used to examine the financial strength and weaknesses of the concerned banks. In this research study involves ratio analysis for judging capital adequacy, return on total assets, and management efficiency and liquidity position of the company.

A. Capital Adequacy Ratio (CAR)

According to the directive issued by NRB, the bank capital has been categorized into two parts:

- Core capital
- Supplementary capital

The total of these two capitals is considered for calculating capital adequacy ratio. The capital adequacy ratio is based on total risk-weighted assets. The sum of core and supplementary capital is measured to be total capital fund. For the purpose of calculation of capital fund, the risk-weighted assets have been classified in two parts – On - Balance Sheet Risk-Weighted Assets and Off - Balance Sheet Risk Weighted

Items. The capital adequacy ratio would measure the total capital fund on the basis of total risk-weighted assets. The capital adequacy ratio shall be determined as follows.

$$\text{CAR} = \frac{\textbf{Total Capital Fund}}{\textbf{Total Risk Weighted Assets}} \times 100$$

According to NRB directives, commercial bank should maintain their CAR more than 11%, core capital 5.5% and supplementary capital 5.5%. All commercial banks should maintain CAR; this is created to protect the interest of the depositors. In the event of non-fulfillment of CAR in any quarter, the banks shall fulfill the shortfall amount within next six months. If, any bank does not fulfill the minimum CAR within the specified period, NRB may initiate any of the following action.

- Restriction on accepting new deposit
- Suspension of opening new branch
- Suspension of distribution of dividends
- Restriction for getting loans from other banks.

B. Performing Loan Ratio

All good and overdue loans for below 90 days are performing loans. This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Higher ratio indicates efficiency in utilizing the good loans.

$$\text{Performing Loan Ratio} = \frac{\textbf{Performing Loan}}{\textbf{Total Loan}} \times 100$$

C. Non Performing Loan Ratio

Non performing loans are those loans which do not produce any outcome like interest. It is the loan with the due date of 3 months up to 6 months: substandard, 6 months to 1 year: doubtful, and above 1 year: bad. Lower NPL ratio indicates the better management of assets.

$$\text{NPL Ration} = \frac{\textbf{Total Non Performing Loan (TNPL)}}{\textbf{Total Loan (TL)}} \times 100$$

D. Loan Loss Provision Ratio

This is the provision set aside by the banks in order to cover the probable loss caused due to the default of the loan amount. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower the LLP provision signifies that the bank has higher volume of good loan and the provision is less required and vice versa. Loan Loss Provision (LLP) for Total Loan (TL) is the amount of provision set aside to cover the loss from total loans. LLP to TL is always less than LLP to NPL as NPL is the part of TL. If the LLP to TL is lower than we can say that the quality of loan is better. But if the LLP to TL is higher then we can say that the quality of loan is not nice but at least we can feel safe as it has more provision for losses from loan.

This ratio is calculated by dividing the total provision made by the bank by its Total Non Performing loan. This can be presented as:

$$\textbf{LLP Ratio} = \frac{\textbf{Total Loan Loss Provision (TLLP)}}{\textbf{Total Non Performing Loan (TNPL)}} \times 100$$

E. Management Efficiency Ratio

Management Efficiency Ratio is the ratio of net income of any bank to its number of working employees. This ratio shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at its system. The higher ratio indicates existence of efficient management and vice versa. It can be calculated by using following formula:-

$$\textbf{Management Efficiency Ratio} = \frac{\textbf{Net Profit after Tax}}{\textbf{No of Staff}}$$

F. Earning Per Share

It measures the amount value of shareholders gain from each share held. It is an important ratio for an investor because of its relationship to dividends and market price. Higher EPS indicates higher return for the shareholders.

$$\textbf{EPS} = \frac{\textbf{Net Profit after Tax (NPAT)}}{\textbf{No. of Shares}}$$

G. Price Earning Ratio

This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. This ratio helps security analysts to asses a bank’s performance as expected by the investors. Higher ratio indicates better place for the investment and vice versa. It can be calculated by using following formula:

$$\textbf{P/E Ratio} = \frac{\textbf{Market Price per Share}}{\textbf{Earning Per Share}}$$

H. Return on Assets (ROA)

This ratio depicts how efficient a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio the better it is as it shows higher turnover of assets.

It measures a company's success in earning a return for the common stockholders. Higher ROA indicates better utilization of total assets. The Return on Assets is derived by dividing net profit after tax by total assets. Mathematically,

$$\textbf{ROA} = \frac{\textbf{Net Profit after Tax (NPAT)}}{\textbf{Total Assets (TA)}} \times 100\%$$

I. Return on Equity

This ratio indicates how much of the shareholders fund is to it mobilize to earn profits. It also shows how effectively the banks have utilized their equity. The higher the ratio, the better the financial position of the banks. It measures a company's success in earning a return for the common stockholders. Higher ROE indicates better utilization of capital fund. The Return on Equity ROE is derived by dividing net profit after tax by total equities.

$$\textbf{ROE} = \frac{\textbf{Net Profit after Tax}}{\textbf{Shareholder's Fund}} \times 100\%$$

J. Calculation of Cash Reserve Ratio

As we know that every bank has to maintain a reserve with Nepal Rastra Bank (NRB) equal to 5% of total local currency deposit. This is done so that there will be no problem relating to deficiency of liquid cash as it affects the goodwill of the banks. How much CRR a bank has maintained can be calculated by using following formula:-

$$CRR = \frac{\text{Cash Balance in NRB}}{\text{Total Deposit}}$$

K. Cash and Bank Balance Ratio

This Ratio is designed to measure the Banks ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower Ratio indicates that banks might face a liquidity crunch while paying its obligations whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. Cash and Bank Balance Ratio is derived by dividing the cash and bank balance by total deposits. Symbolically,

$$\text{Cash \& Bank Balance Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}} \times 100\%$$

L. Investment in Government Securities Ratios

Government securities are known as liquid assets, which can easily converted into cash to meet the short-term obligation. That's why every commercial bank has to invest their certain amount in government securities

Liquidity is a sensitive factor for the banking sector. All the banks all over the world invest a significant amount of total deposit on the government securities in their respective central banks to ascertain to meet the liquidity shortages in the banks incase of huge unanticipated withdrawals. Banks are highly encouraged to invest in the government securities because it is as good as liquid assets and there is no risk in government securities. NRB has not laid down any specific rule regarding the percentage to be invested in the government securities like treasury bills, development bonds, and national saving bonds. The ratio is calculated by dividing the investment in government securities by total deposits. Mathematically,

$$SRR = \frac{\text{Investment in Government Securities}}{\text{Total Deposit}} \times 100\%$$

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

4. Financial Analysis

The financial analysis is undertaken to asses the financial strengths and weaknesses of the firm. The analysis is usually based on financial statements prepared by the firm. The analysis can be performed by insiders or by outsiders. One of the outsiders is financial institution considering the extension of credit to the firm. Financial analysis can serve as the basis for decision-making. The loan officer of the bank needs to decide weather or not to extend the loan to the firm. The insiders wanted to make financial analysis to an assessment of the performance of the firm or its various divisions. The analysis is also made to find out weather to use debt or equity funds to finance a planned plant expansion. Financial analysis uses data contained in the firm's financial statements. The financial statement are used the balance sheet and income statements, supplemented by the statement of cash flows. The primary tools of financial ratios. This chapter is devoted to definition and calculation of a set of commonly used financial ratios and an integrated model for analyzing financial performance.

Financial ratios are powerful tools of financial analysis. They provide a good technique for assessing financial performance of the firm. The particular ratio to be computed depends upon purpose in view. We have devoted to study and calculate a set of commonly used financial ratios in the aspect of bank through CAMEL approach where

C = Capital Adequacy
A = Assets Quality
M = Management
E = Earning
L = Liquidity

4.1 Capital Adequacy Ratio (CAR)

According to the directive issued by NRB, the bank capital has been categorized into two parts:

a. Core capital

b. Supplementary capital

The total of these two capitals is considered for calculating capital adequacy ratio. The capital adequacy ratio is based on total risk-weighted assets. The sum of core and supplementary capital is measured to be total capital fund. For the purpose of calculation of capital fund, the risk-weighted assets have been classified in two parts – On - Balance Sheet Risk-Weighted Assets and Off - Balance Sheet Risk Weighted Items. The capital adequacy ratio would measure the total capital fund on the basis of total risk-weighted assets. The capital adequacy ratio shall be determined as follows.

$$\textbf{CAR} = \frac{\textbf{Total Capital Fund}}{\textbf{Total Risk Weighted Assets}} \times 100$$

According to NRB directives, commercial bank should maintain their CAR more than 11%, core capital 5.5% and supplementary capital 5.5%. All commercial banks should maintain CAR; this is created to protect the interest of the depositors. In the event of non-fulfillment of CAR in any quarter, the banks shall fulfill the shortfall amount within next six months. If, any bank does not fulfill the minimum CAR within the specified period, NRB may initiate any of the following action.

- Restriction on accepting new deposit
- Suspension of opening new branch
- Suspension of distribution of dividends
- Restriction for getting loans from other banks.

Computation of Capital Adequacy Ratio

Capital adequacy ratio of Kumari Bank Limited

Year	2060/61	2061/62	2062/63	2063/64
Total capital Fund	596462845	705529193	940979000	1115207000
Total Risk Weighted Assets	4449407210	6291843521	7625050127	9959911398
Ratio (In %)	13.41	11.21	12.34	11.22

Capital adequacy ratio of Machhapuchchhre Bank Ltd.

Year	2060/61	2061/62	2062/63	2063/64
Total capital Fund	579380000	688843000	976067000	1101726000
Total Risk Weighted Assets	3250663000	6063130000	7631998000	9200659000
Ratio (In %)	17.82	11.36	12.79	11.97

Capital adequacy ratio of Siddhartha Bank Ltd.

Year	2060/61	2061/62	2062/63	2063/64
Total capital Fund	331812252	413424989	632279000	7297687000
Total Risk Weighted Assets	1979823911	2968444347	4465021233	7297686632
Ratio (In %)	16.76	13.93	14.16	11.84

The Capital Adequacy Ratio of KBL, MBL and SBL are presented by following table:

Table No.-4.1

Capital Adequacy Ratio of KBL, MBL and SBL

Year	KBL	MBL	SBL
2060/61	13.41	17.82	16.76
2061/62	11.21	11.36	13.93
2062/63	12.34	12.79	14.16
2063/64	11.22	11.97	11.84
Average in %	**12.05**	**13.48**	**14.17**

The Capital Adequacy Ratio of the Kumari Bank ltd. Machhapuchchhre Bank Ltd and Siddhartha Bank Ltd are presented by the following figures.

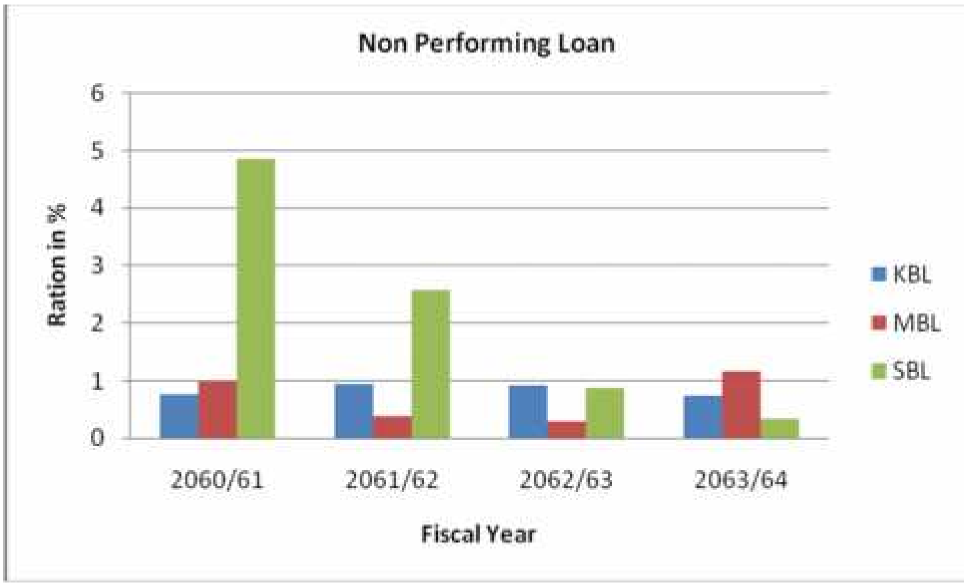

Figure No. – 4.1

The above table shows that all three banks are having CAR more than the prescribed values of NRB which is 11%. However, SBL has the highest average ratio of 14.17%. The average of KBL and MBL are 12.05% and 13.48%. The common thing among them all is the decreasing trend of their CAR ratio. Maintaining higher CAR ratio is good for SBL but more of its fund seems to be tied up. Probably this might be one of the reasons why SBL is having less Net profit after tax, among three banks. It can use it's over fund in more productive sector.

4.2 Assets Quality

Commercial banks hold their assets in the form of liquid assets like cash and bank balance, short term investments, loans and advances etc. Through this lending bank generate interest. Banks lending policies and other regulation determines the quality of assets. Assets quality ratio is also known as activity ratio. This is only possible if the bank is efficient enough to earn profit. There are basically two types of loans and advances and loss provisions:

- **Performing loans:** All good loans and overdue for below 90 days.

- **Non-Performing loans**:

a) **Sub stand –** loans overdue by more than 3 months up to 6 months

b) **Doubtful –** loans overdue by more than 6 months up to 1 year

c) **Bad –** loans overdue by more than 1 year

Table No. - 4.2

Classification of loans

Classification of loan	Category	Duration Overdue	Loan Loss Provision
Performing loan	Standard Pass/ Good	Up to1 to 3 months	1%
Non Performing Loan	Sub-standard	3 to 6 months	25%
	Doubtful	6 months to 1 year	50%
	Bad Loans	More than 1 year	100%

4.2.1 Performing Loans Ratio

All good and overdue loans for below 90 days are performing loans. This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Higher ratio indicates efficiency in utilizing the good loans.

$$\textbf{Performing Loan Ratio} = \frac{\textbf{Performing Loan}}{\textbf{Total Loan}} \times 100$$

Table No. – 4.3

Performing Loan, Non-Performing Loan & Total Loan of KBL, MBL, SBL

Year	Description	KBL	MBL	SBL
2060/61	PL	3669794872	2515804974	1491795213
	NPL	28189656	24983047	76031556
	Total Loan	**3697984528**	**2540788021**	**1567826769**
2061/62	PL	5589348867	5110362471.32	2567003701
	NPL	53988538	19860891.13	67,926,908
	Total Loan	**5,643,337,405**	**5130223362.45**	**2,634,930,609**
2062/63	PL	6943433808	6129656359	2567003701
	NPL	64353706	16916597	33572560
	Total Loan	**7007787514**	**6146572956**	**3869269993**
2063/64	PL	8996314613	7234771025	6298185615
	NPL	66118868	85168239	21541583
	Total Loan	**9062433481**	**7319939264**	**6319727198**

Table No. – 4.4

Performing loan ratio of KBL, MBL and SBL

Name of the Bank	2060/61	2061/62	2062/63	2063/64
Kumari Bank Ltd.	99.24%	99.05%	99.08%	99.27%
Machhapuchchhre Bank Ltd	99.02%	99.61%	99.72%	98.84%
Siddhartha Bank Ltd	95.16%	97.42%	99.13%	99.66%

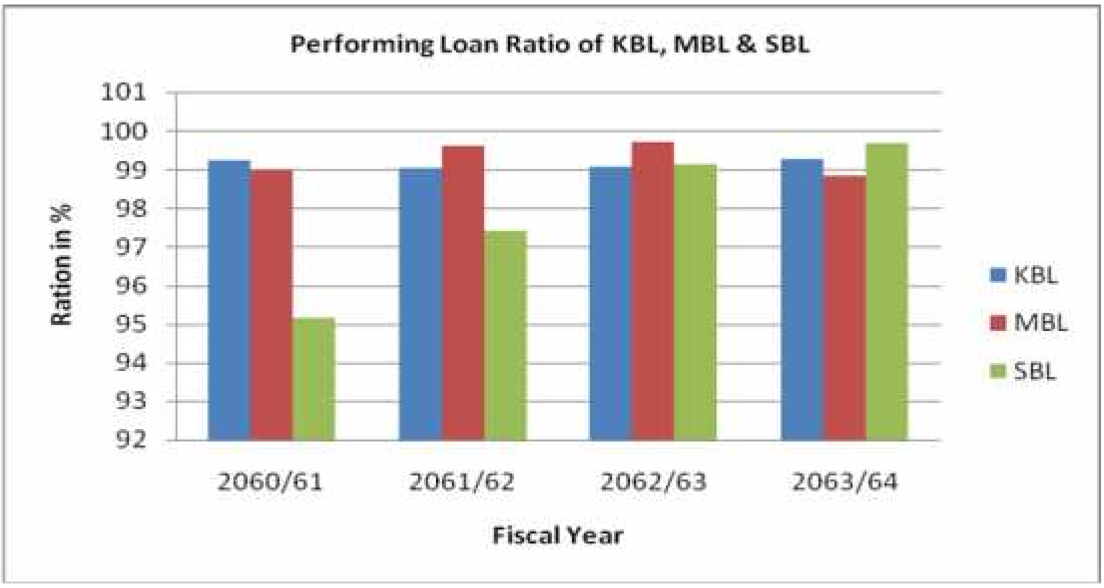

Figure No. – 4.2

Performing Loan indicates the quality of total credit. These above ratios disclose the % of performing loan out of total credit, which is in increasing trend. The above table shows that performing loan of KBL and MBL are high which seems both the bank has invested their funds in proper way but in the fiscal year 2063/64 performing loan of Machhapuchchhre bank decreased. Where as in the case of SBL, it has increased its performing loan ratio in the fiscal year 2063/64 in comparison to previous year, which shows that the management of SBL has been doing proper risk management analysis while giving loans. This also means that SBL is more concentrated & stringent while issuing loan. Before providing the loan the bank has to investigate properly to maximize the performing loan. Performing loans are paid with in 3 month to 6 months. Higher Performing loans which means that the bank invested properly.

4.2.2 Non Performing Loan Ratio

Non performing loans are those loans which do not produce any outcome like interest. It is the loan with the due date of 3 months up to 6 months: substandard, 6 months to 1 year: doubtful, and above 1 year: bad. Lower NPL ratio indicates the better management of assets.

$$\textbf{NPL Ration} = \frac{\textbf{Total Non Performing Loan (TNPL)}}{\textbf{Total Loan (TL)}} \times 100$$

Calculation of Non-Performing Loan of Kumari Bank Ltd.

Types of Loan	2060/61	2061/62	2062/63	2063/64
Sub Standard	14,013,265	29,768,782	12,236,631	10,378,475
Doubtful	10,895,556	3,325,089	32,745,146	38,636,356
Bad	3,280,835	20,894,667	19,371,929	17,104,037
Total Non Performing loan	28,189,656	53,988,538	64,353,706	66,118,868
Total Loan	**3,697,984,528**	**5,643,337,405**	**7,007,787,514**	**9,062,433,481**
Non Performing loan Ratio	0.76%	0.95%	0.92%	**0.73%**

Calculation of Non-Performing Loan of Machhapuchchhre Bank Ltd.

Types of Loan	2060/61	2061/62	2062/63	2063/64
Sub Standard	843,818	2,113,042	65,003	19290865
Doubtful	3,656,287	1,178,855	1,213,723	26610217
Bad	20,482,942	16,568,994	15,637,870	39267157
Total Non Performing loan	24,983,047	19,860,891	16,916,597	85168239
Total Loan	2540788021	5130223362	6146572956	7319939264
Non Performing loan Ratio	0.98%	0.39%	0.28%	1.16%

Calculation of non-performing loan ratio of Siddhartha Bank Ltd.

Types of Loan	2060/61	2061/62	2062/63	2063/64
Sub Standard	8,621,883	29,136,238	4,460,923	14716
Doubtful	488,355	17,954,089	2,695,426	-
Bad	66,921,318	20,836,581	26,416,211	21526867
Total Non Performing loan	76,031,556	67,926,908	33,572,560	21541583
Total Loan	1,567,826,769	2,634,930,609	3,869,269,993	6319727198
Non Performing loan Ratio	4.84%	2.58%	0.87%	0.34%

Table No. – 4.5

Non-Performing Loan of KBL, MBL and SBL

Name of the Bank	2060/61	2061/62	2062/63	2063/64	Average
Kumari Bank Ltd.	0.76%	0.95%	0.92%	0.73%	0.84%
Machhapuchchhre Bank Ltd.	0.98%	0.39%	0.28%	1.16%	0.70%
Siddhartha Bank Ltd.	4.85%	2.58%	0.87%	0.34%	2.16%

The Non Performing Loan ratio (NPL Ratio) of all three banks of different fiscal years can be presented by the following figure.

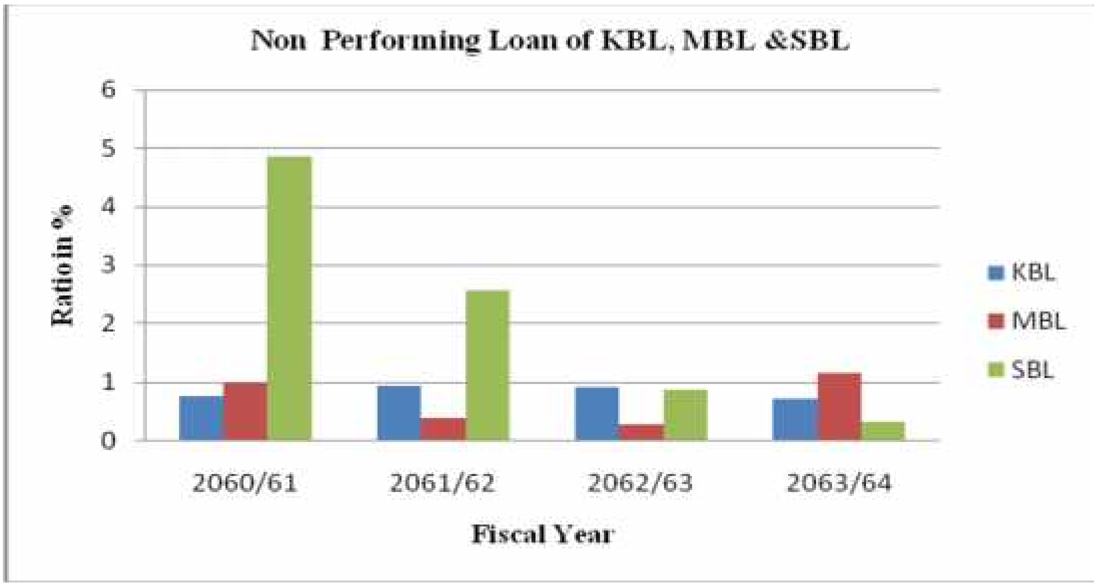

Figure No. – 4.3

In the Above table the non performing loan of Siddhartha Bank Ltd is highest among the three banks i.e. 4.85% ratio in the fiscal year 2060/61. But the non-performing loan ratio of Siddhartha bank ltd; is in decreasing trend that implies that management is trying to reduce none performing loan. Similarly, the average non performing loan ratio of Machhapuchchhre Bank is the lowest among all which is just 0.70% which shows that MBL is most efficient in managing its loan and advances. The Average ratio of KBL is 0.84% which is better than the average ratio of SBL. The ratio of SBL seems to be in decreasing trend. SBL seems to be the most efficient in bringing down its non performing loan ratio

4.2.3 Loan Loss Provision Ratio

This is the provision set aside by the banks in order to cover the probable loss caused due to the default of the loan amount. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower the LLP provision signifies that the bank has higher volume of good loan and the provision is less required and vice versa. Loan Loss Provision (LLP) for Total Loan (TL) is the amount of provision set aside to cover the loss from total loans. LLP to TL is always less than LLP to NPL as NPL is the part of TL. If the LLP to TL is lower than we can say that the quality of loan is better. But if the LLP to TL is higher then we can say that the quality of loan is not nice but at least we can feel safe as it has more provision for losses from loan.

This ratio is calculated by dividing the total provision made by the bank by its Total Non Performing loan. This can be presented as:

$$\textbf{LLP Ratio} = \frac{\textbf{Total Loan Loss Provision (TLLP)}}{\textbf{Total Non Performing Loan (TNPL)}} \times 100$$

Calculation of Loan Loss Provision of Kumari Bank Ltd

Particulars	2060/61	2061/62	2062/63	2063/64
Total Non Performing Loan	28,189,656	53,988,538	64,353,706	66,118,868
Loan Loss Provision Created	48,975,805	90,087,063	115,932,088	133,420,366
Loan Loss Provision Ratio	173.74%	166.86%	180.15%	201.78%

Calculation of Loan Loss Provision of Machhapuchchhre Bank Ltd

Particulars	2060/61	2061/62	2062/63	2063/64
Total Non Performing Loan	24,983,047	19,860,891	16,916,597	85,168,239
Total Non Performing Loan	24,983,047	19,860,891	16,916,597	85,168,239
Loan Loss Provision Ratio	190.25%	346.36%	461.94%	223.14%

Calculation of Loan Loss Provision of Siddhartha Bank Ltd

Particulars	2060/61	2061/62	2062/63	2063/64
Total Non Performing Loan	76,031,556	67,926,908	33,572,560	21541583
Loan Loss Provision Created	83,524,370	64,154,594	80,147,301	97140385
Loan Loss Provision Ratio	109.85	94.44	238.73	450.94%

Table No. – 4.6

Loan Loss Provision of KBL, MBL and SBL

Year	KBL	MBL	SBL
2060/61	173.74	190.25	109.85
2061/62	166.86	346.36	94.44
2062/63	180.15	461.94	238.73
2063/64	201.78	223.14	450.94
Average (%)	**180.63**	**305.42**	**223.49**

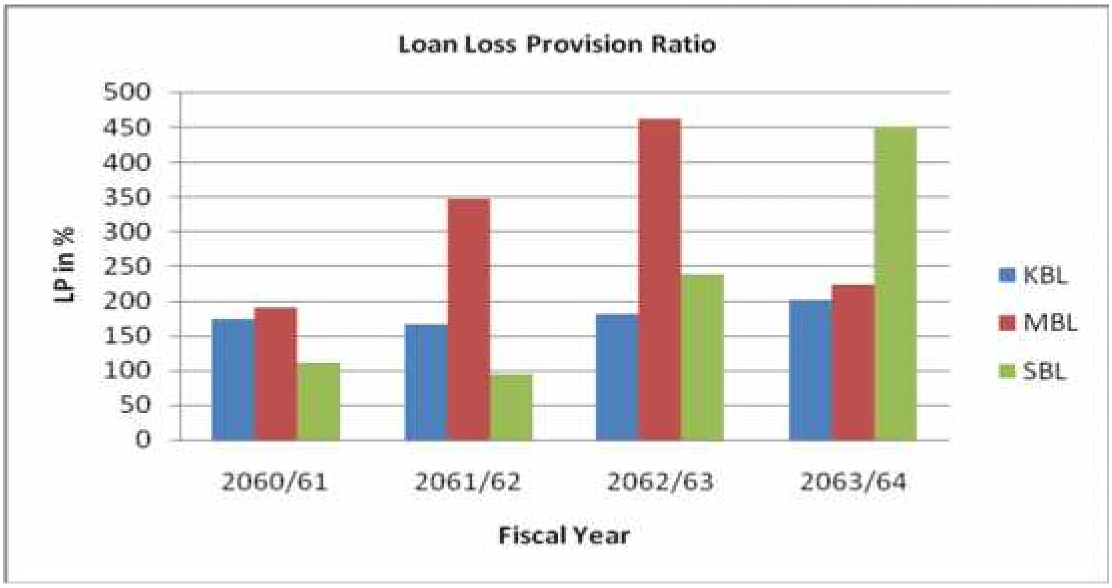

Figure No – 4.4

The above table shows that the MBL has the highest average ratio which is 305.42%. The average ratio of KBL and SBL are 180.63% and 223.49% respectively. The highest average ratio of MBL indicates that the bank is much more prepared to encounter the losses incurred from non performing loan but due to high provision of

MBL capital has been staying idle which is a loss for the stakeholders because it doesn't help to maximize return. The other two banks also seem in the safe side. Loan loss provision includes provisions made for good loan, substandard loan, doubtful loan and bad loan. Whenever the proportion of good loan is higher the total loan loss provision becomes higher as a result the ratio also becomes higher. Therefore the ratio of MBL is highest among all. But MBL is also not in absolutely safe side because its highest proportion of good loan has equal chances of developing into bad loans.

4.2.4 Loan Volume

The volume of loan provided by the bank also indicates the assets quality. The volume of performing and non performing loan provided by the bank shows the financial strengths of the organization. The performing and non performing loans of KBL, MBL and SBL are presented by the following table.

Table No. – 4.7

PL and NPL of KBL, MBL and SBL

Banks	Fiscal Year	PL	NPL
Siddhartha Bank Limited (SBL)	2060/61	95.16%	4.84%
	2061/62	97.42%	2.58%
	2062/63	99.13%	0.87%
	2063/64	99.66%	0.34%
Machhapuchchhre Bank Limited (MBL)	2060/61	99.02%	0.98%
	2061/62	99.61%	0.39%
	2062/63	99.72%	0.28%
	2063/64	98.84%	1.16%
Kumari Bank Limited (KBL)	2060/61	99.24%	0.76%
	2061/62	99.05%	0.95%
	2062/63	99.08%	0.92%
	2063/64	99.27%	0.73%

4.3 Management Efficiency

The success of any institution depends on the competency of its management. Good management can make and bad management can break an organization. In fact, the management not only makes suitable policy and the business plans, but also implements them for the short term and the long term interests, which helps achieve aimed objectives of bank and financial institutions. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the officials, operating expenditure, customer's relation with the officials and institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies. Therefore, for efficient and effective management, the bank should have following other qualities:

4.3.1 Qualities of Good Management

- Proper structure of the management
- Qualitative Human resources management
- Customer care department
- Use of modern Information technology
- Adequate management of loan and advances
- Fair Decision Making
- Proper Communication system
- Working Atmosphere and management

There is a universal phenomenon that good management can make and poor management can break an organization. Thus any organization be it bank must be serious towards its management and hence hire professionals to increase the management efficiency and effectiveness to produce wonderful results for the organization.

4.3.2 Staff Motivation

Besides, the human resources are considered the most valued assets for any organization who's effective and efficient contributions help in organizational growth. Efficiency can be enhanced through-

- Self directed work team.
- Job rotation.
- Total quality management, procedures and processes.

- Encouragement of innovative and creative behavior.
- Extensive employee involvement and high level of skilled training.
- Contingent pay based in performance.
- Coaching and monitoring.
- Significant amounts of information sharing.
- Cross functional integration.

Comprehensive employee recruitment and selection procedure

Comparative Analysis of Management Of KBL, MBL AND SBL

Table No. – 4.8

Comparative Analysis of Management of KBL, MBL and SBL

Comparison Basis	KBL	MBL	SBL
Parking Facility	Not Sufficient	Sufficient	Sufficient
Security Arrangement			
- Metal Dictator	Yes	Yes	Yes
- CCTV Arrangement	Yes	Yes	Yes
Reception			
- Quick Response	Yes	Yes	Yes
Customers Area			
- Lightening System	Excellent	Excellent	Excellent
- Neatness	Excellent	Excellent	Excellent
- Signals	Excellent	Average	Average
- Television Set	Yes	Yes	-
- Seating Arrangement	Average	Average	Average
Working Environment			
- Noise Pollution	High	Medium	Medium

Besides Qualitative analysis we have done following quantitative analysis to give more accurate glimpse of their situation. They are as follows.

4.3.3 Management Efficiency Ratio

Management Efficiency Ratio is the ratio of net income of any bank to its number of working employees. This ratio shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at its system. The higher ratio indicates existence of efficient management and vice versa. It can be calculated by using following formula:-

$$\textbf{Management Efficiency Ratio} = \frac{\textbf{Net Profit after Tax}}{\textbf{No of Staff}}$$

Management Efficiency Ratio of Kumari Bank Limited

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	48,685,822	87,880,557	103,666,767	170,262,909
No of Staffs	115	143	177	212
MER	423,354	614,549	585,687	803,127

Management Efficiency Ratio of Machhapuchchhre Bank Limited

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	46,689,945	84,870,027	133,996,709	74,085,647
No of Staffs	85	137	196	234
MER	549293	619489	683656	316605

Management Efficiency Ratio of Siddhartha Bank Limited

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	(3,11,06,896)	70,279,794	65,252,813	95305326
No of Staffs	47	56	72	79
MER	(661848)	1254996	906289	1206397

Table No. – 4.9

Management Efficiency Ratio of KBL, MBL and SBL

F.Y	KBL	MBL	SBL
2060/61	423,354	549293	(661848)
2061/62	614549	619489	1254996
2062/63	585687	683656	906289
2063/64	803127	316605	1206397
Average	**606,679.25**	**542,260.75**	**676458.5**

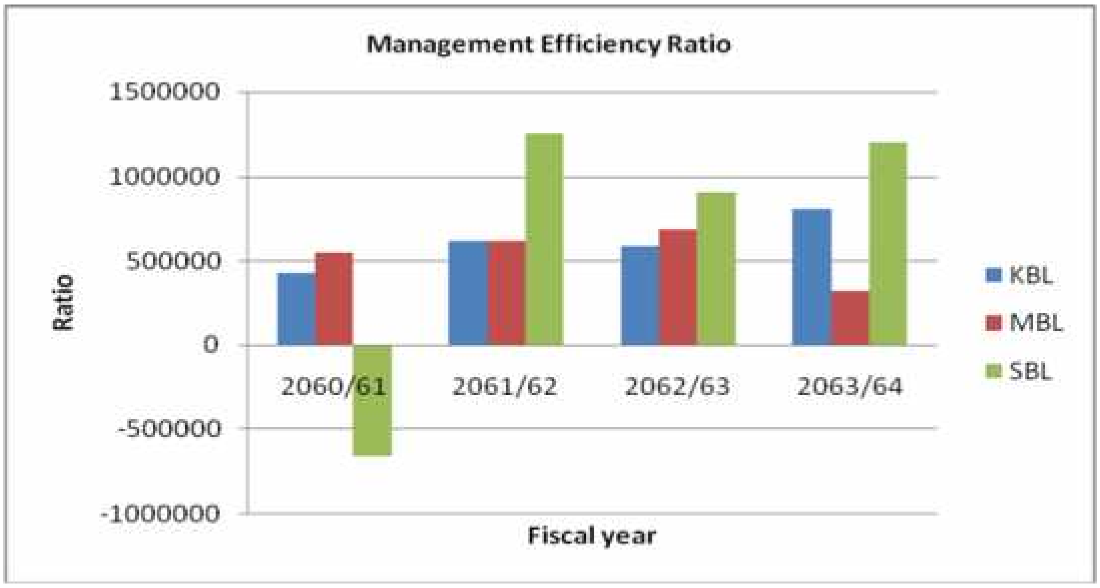

Figure No. – 4.5

The above table shows that the average ratio of SBL is the highest where as the average ratio of MBL is lowest. The ratio of MBL is the highest in the F/Y 2060/61. The ratio of SBL in the F/Y 2060/61 is negative as the bank suffered loss in the year. The movement of the ratio is in zigzag trend in case of all banks. This has happened because the number of staffs in each bank has been increased but at the same time the income of the banks has not been increased in the same proportion. . As effectively the human resources are mobilized the better earning the bank gain So, the remedy would be either to reduce no of staffs or to increase efficiency or to increase profit volume.

4.4 Earning Capacity

The profit earned by the institution on the course of its business operation by providing services is earning/profit earned by the institution. Thus the earning of the bank is profit made by bank in a fiscal year. The success of the bank to protect the interest of the investor can be imagined through the calculation of profit earning of the bank. An analysis of the earnings helps the management, shareholders and depositors to evaluate the performance of the bank, sustainability of earnings and to forecast growth of the bank. Therefore the following ratios have been analyzed to test earning capacity of the bank

- Earning Per Share (EPS)
- Price Earning Ratio (P/E ratio)
- Return on assets (ROA)
- Return on Equity (ROE)

4.4.1 Earning Per Share

It measures the amount value of shareholders gain from each share held. It is an important ratio for an investor because of its relationship to dividends and market price. Higher EPS indicates higher return for the shareholders.

$$\textbf{EPS} = \frac{\textbf{Net Profit after Tax (NPAT)}}{\textbf{No. of Shares}}$$

Earning Per Shares of Kumari Bank Ltd.

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	48,685,822	87,880,557	103666767	170262909
No of Shares	5000000	5000000	5250000	7500000
Earning Per Shares	9.74	17.58	16.59	22.70

Earning Per Shares of Machhapuchchhre Bank Ltd.

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	46689945	84870027	133996709	74,085,647
No of Shares	5500000	5500000	7150000	8216513
Earning Per Shares	8.49	15.43	18.74	9.02

Earning Per Shares of Siddhartha Bank Ltd.

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	(31106896)	70279794	65252813	95305326
No Of Shares	3500000	3500000	5000000	6000000
Earning Per Shares	(8.89)	20.08	13.05	15.88

Table No. – 4.10

Earning Per Shares of KBL, MBL and SBL

Fiscal year	KBL	MBL	SBL
2060/61	9.74	8.49	(8.89)
2061/62	17.58	15.43	20.08
2062/63	16.59	18.74	13.05
2063/64	22.70	9.02	15.88
Average	**16.65**	**12.92**	**10.03**

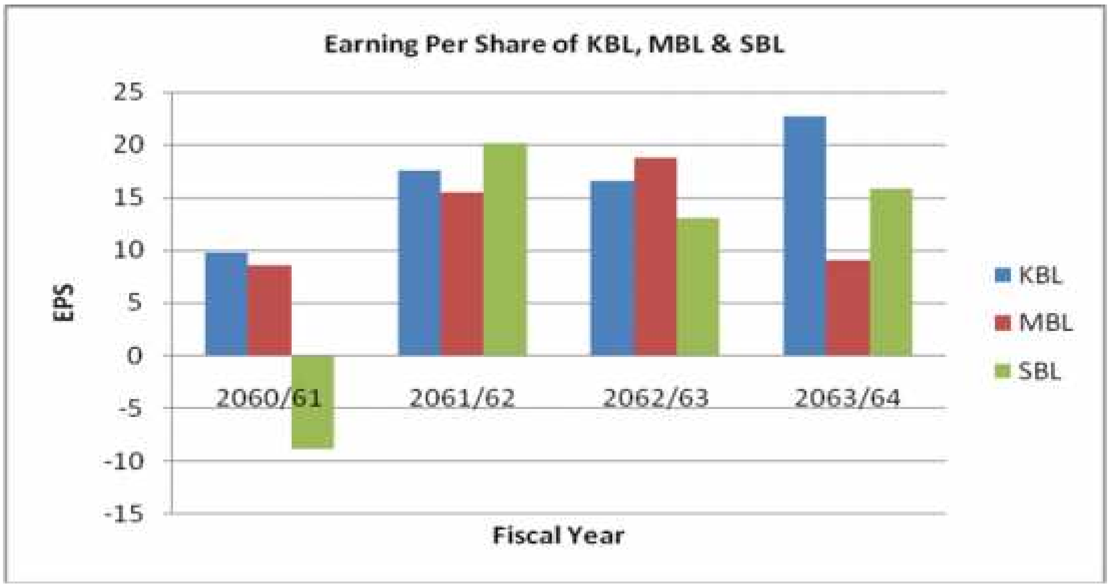

Figure No. – 4.6

The above table shows that the average EPS of KBL is the highest which is Rs. 16.65 where as the average ratio of SBL is the lowest which is Rs. 10.03. KBL has the highest EPS in the F/Y 2063/64 which is Rs. 22.70. The movement of EPS of all banks seems to be in zigzag trend. There is no standard value prescribed for EPS but higher value is preferable. Higher volume of profit is required to have higher level of EPS. So the banks need to increase profit volume.

4.4.2 Price Earning Ratio

This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. This ratio helps security analysts to asses a bank's performance as expected by the investors. Higher ratio indicates better place for the investment and vice versa. It can be calculated by using following formula:

$$\textbf{P/E Ratio} = \frac{\textbf{Market Price per Share}}{\textbf{Earning Per Share}}$$

Price Earning Ratio of Kumari Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Market Price / Shares	-	369	443	830
Earning Per Shares	9.74	17.58	16.59	22.70
P/E Ratio	0	20.99	26.71	36.56

Price Earning Ratio of Machhapuchchhre Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Market Price / Shares	125	256	320	620
Earning Per Shares	8.49	15.43	18.74	9.02
P/E Ratio	14.72	16.59	17.08	68.74

Price Earning Ratio of Siddhartha Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Market Price / Shares	-	-	360	778
Earning Per Shares	(8.89)	20.08	13.05	15.88
P/E Ratio	0.00	0.00	27.59	48.99

Table No – 4.11

Price Earning Ratio of KBL, MBL and SBL

Fiscal year	KBL	MBL	SBL
2060/61	0	14.72	0.00
2061/62	20.99	16.59	0.00
2062/63	26.71	17.08	27.59
2063/64	36.56	68.74	48.99
Average	**21.06**	**29.28**	**19.14**

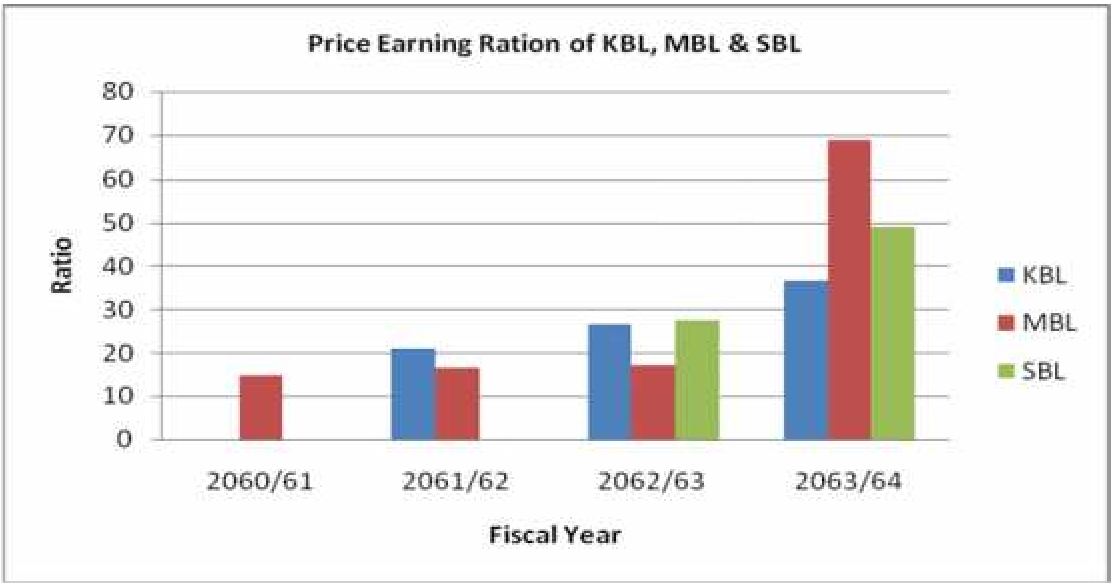

Figure No – 4.7

From the above table, we can find out that SBL did not have any listed market price in the F/Y 2060/61 and F/Y 2061/62 as well as of KBL did not have listed market price in the F/Y 2060/61. Hence, I was unable to calculate P/E Ratio of that period. The above table shows that MBL has the highest value of average ratio which is 29.28. Where as SBL has the lowest average ratio of 19.14. Even though, KBL did not listed market price in the fiscal year 2060/61 as the bank had not gone through public offering and the shares were not listed in NEPSE. MBL has the highest ratio in the F/Y 2063/64 which is 68.74 which signifies that the public have more trust on the bank's earning as well as its performance. They have seen future potentiality of the bank's even better performance. The movement of the ratio is in increasing trend of all banks.

4.4.3 Return on Assets (ROA)

This ratio depicts how efficient a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio the better it is as it shows higher turnover of assets.

It measures a company's success in earning a return for the common stockholders. Higher ROA indicates better utilization of total assets. The Return on Assets is derived by dividing net profit after tax by total assets. Mathematically,

$$ROA = \frac{\textbf{Net Profit after Tax (NPAT)}}{\textbf{Total Assets (TA)}} \times 100\%$$

Return on Assets of Kumari Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	48,685,822	87,880,557	103666767	170262909
Total Assets	5494176578	7437882125	9010276184	11918311429
Return on Assets(ROA)	0.89%	1.18%	1.15%	1.43%

Return on Assets of Machhapuchchhre Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	46689945	84870027	133996709	74085647
Total Assets	3448634251	6456460820	9069830401	10807616906
Return on Assets(ROA)	1.35%	1.32%	1.48%	0.69%

Return on Assets of Siddhartha Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	(31106896)	70279794	65252813	95305326
Total Assets	1857574589	3091102752	4756935449	7954664475
Return on Assets(ROA)	(1.67)%	2.27%	1.37%	1.20%

Table No. – 4.12

Return on Assets of KBL, MBL and SBL

Fiscal year	KBL	MBL	SBL
2060/61	0.89	1.35	(1.67)
2061/62	1.18	1.32	2.27
2062/63	1.15	1.48	1.37
2063/64	1.43	0.69	1.20
Average (in %)	**1.16**	**1.21**	**0.79**

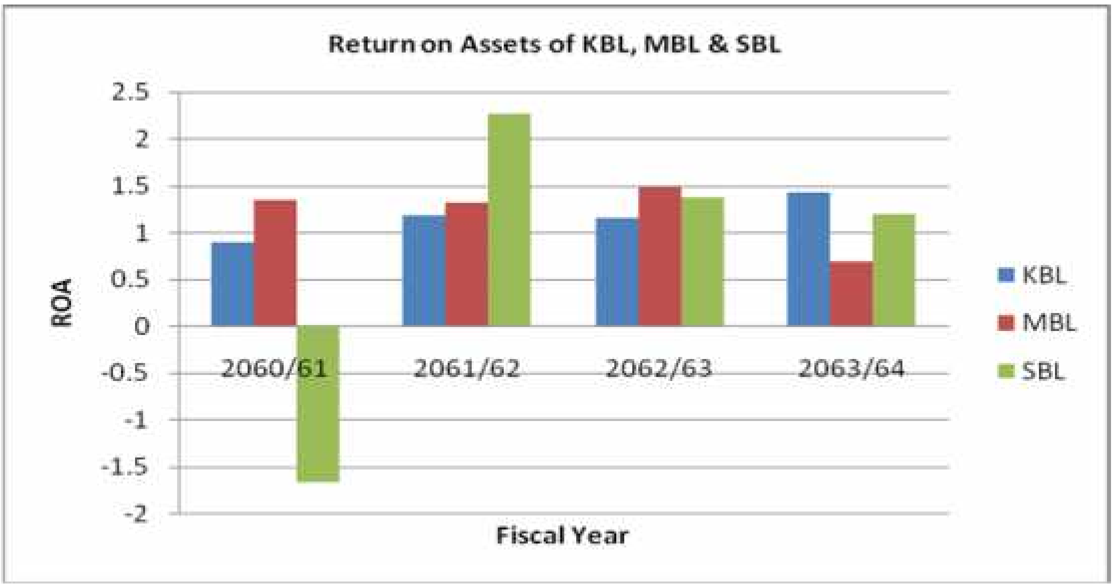

Figure No. – 4.8

The above table shows that the average ratio of MBL is highest, which is 1.21%, where as the average ratio of SBL is the lowest which is just 0.79%. The ratio of SBL in the F/Y 2061/62 is the highest among all the ratios which indicates the bank was most successful in mobilizing its assets to yield highest return. However the movement of ratio of all the banks is in zigzag trend through out the study period.

4.4.4 Return on Equity

This ratio indicates how much of the shareholders fund is to it mobilize to earn profits. It also shows how effectively the banks have utilized their equity. The higher the ratio, the better the financial position of the banks. It measures a company's success in earning a return for the common stockholders. Higher ROE indicates better utilization of capital fund. The Return on Equity ROE is derived by dividing net profit after tax by total equities.

$$\mathbf{ROE} = \frac{\textbf{Net Profit After Tax}}{\textbf{Shareholder's Fund}} \times 100\%$$

Return on Equity of Kumari Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	48,685,822	87,880,557	1,03,666,767	170262909
Shareholder’s Fund	5,96,462,845	7,05,529,193	9,40,979,000	1025630159
Return on Equity (ROE)	8.16%	12.45%	11.02%	16.60%

Return on Equity of Machhapuchchhre Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	46,689,945	84,870,027	1,33,996,709	74085647
Shareholder's Fund	5,79,380,000	6,88,843,000	9,76,067,000	1000264635
Return on Equity (ROE)	8.06%	12.32%	13.73%	7.40%

Return on Equity of Siddhartha Bank Ltd

Year	2060/61	2061/62	2062/63	2063/64
Net Profit After Tax	(31,106,896)	70,279,794	65,252,813	95305326
Shareholder's Fund	3,31,812,252	4,13,424,989	6,32,279,000	793709939
Return on Equity (ROE)	(9.38)%	16.99%	10.32%	12.00%

Table No. – 4.13

Return on Equity of KBL, MBL and SBL

Fiscal year	KBL	MBL	SBL
2060/61	8.16%	8.06%	(9.38)%
2061/62	12.45%	12.32%	16.99%
2062/63	11.02%	13.73%	10.32%
2063/64	16.60%	7.40%	12.00%
Average	**12.06%**	**10.38%**	**7.48%**

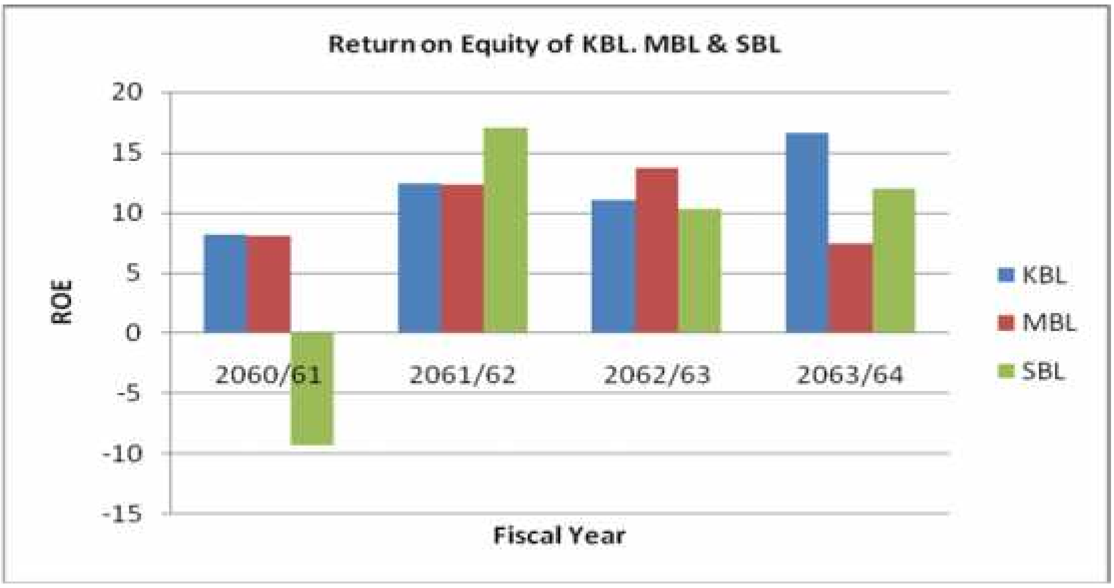

Figure No. – 4.9

The above table shows that the average ratio of KBL is highest which is 12.06%, where as that of SBL is the lowest which is 7.48%. SBL has the highest ratio of 16.99% on the F/Y 2061/62. The value of KBL is in increasing trend. This shows that KBL is improving itself in better utilizing its fund and increasing return for its shareholders. But ROE of MBL & SBL is in fluctuating trend. It means they are not able to utilizing its fund in a proper way.

4.5 Liquidity

Liquidity means the capability of the bank to meet the demand on the customer's deposits. Banks maintain liquidity in various forms like ready cash at its disposal, certain percentage at central bank (NRB) as a statutory requirement, makes placements in other banks and some percentage is utilized in investment on government securities. Liquidity ratios are used to judge a bank ability to meet short-term obligation. It is the comparison between short-term obligation and short-term resources available to meet such obligation. To maintain Liquidity we have to analyze few ratios, which are as follows

4.5.1 Cash Reserve Ratio

As we know that every bank has to maintain a reserve with Nepal Rastra Bank (NRB) equal to 5% of total local currency deposit. This is done so that there will be no problem relating to deficiency of liquid cash as it affects the goodwill of the banks. How much CRR a bank has maintained can be calculated by using following formula:-

$$\textbf{CRR} = \frac{\textbf{Cash Balance in NRB}}{\textbf{Total Deposit}}$$

Table No. – 4.14

Cash Reserve ratio of KBL, MBL and SBL

Fiscal year	KBL	MBL	SBL
2060/61	11.02%	4.91%	6.00%
2061/62	3.44%	8.27%	5.21%
2062/63	2.71%	5.18%	5.03%
2063/64	3.65%	8.29%	5.07%
Average	**5.20%**	**6.66%**	**5.32%**

Source: Annual Report of KBL, MBL and SBL

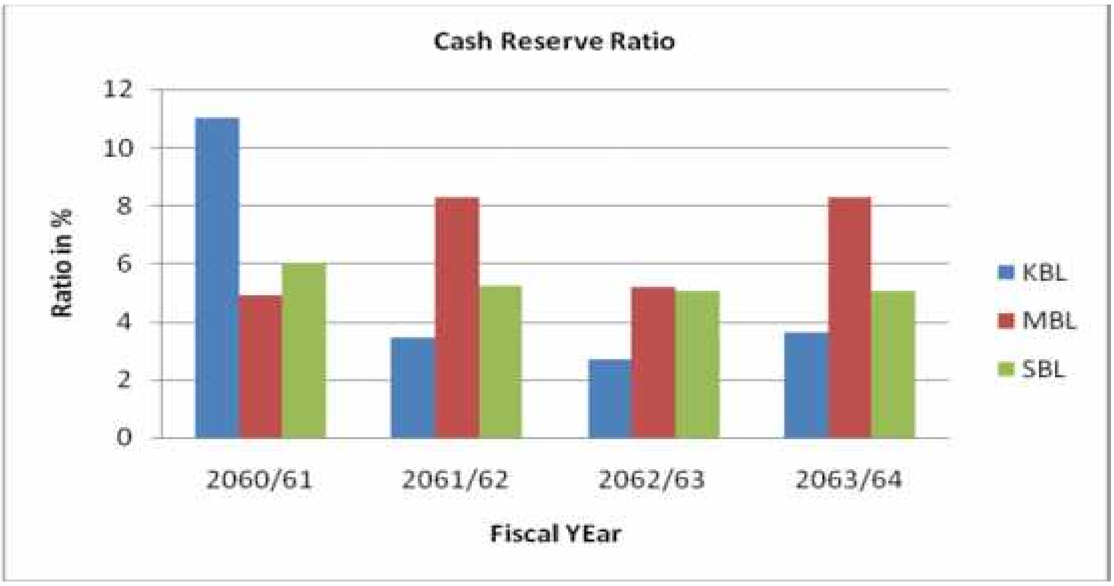

Figure No. – 4.10

AS prescribed by NRB the commercial banks have to maintain a reserve of 5% against their deposits. The above calculated data of the three observed banks show that in average MBL, KBL and SBL are able to maintain the Reserve of 5.20%, 6.66% and 5.32% respectively. Kumari Bank Ltd has maintained highest CRR in the year 2060/61 i.e. 11.02% and gradually it decrease in following year and hence it maintains the average CRR of 5.22% in average. MBL more cash is idle in bank, as it has highest CRR in comparison to other bank. As NRB wants bank to maintain CRR on Weekly basis the above shown CRR may not reflect actual position of banks. The provision of showing weekly CRR at the Year end in the annual report is thus required.

4.5.2 Cash and Bank Balance Ratio

This Ratio is designed to measure the Banks ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower Ratio indicates that banks might face a liquidity crunch while paying its obligations whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. Cash and Bank Balance Ratio is derived by dividing the cash and bank balance by total deposits. Symbolically,

$$\textbf{Cash \& Bank Balance Ratio} = \frac{\textbf{Cash and Bank Balance}}{\textbf{Total Deposit}} \times 100\%$$

Table No. – 4.15

Cash and Bank balance and Total Deposit of KBL, MBL & SBL

Fiscal Year		KBL	MBL	SBL
2060/61	Cash & Bank balance	306751743	410745166	14911722
	Investment in Govt. Securities	312348616	274406945	8743205
	Total Deposit	**2152643807**	**2754632089**	**268196437**
2061/62	Cash & Bank balance	357936562	5847831117	163244784
	Investment in Govt. Securities	904207496	127336220	344935307
	Total Deposit	**5062751938**	**5586802644.09**	**3074289725**

2062/63	Cash & Bank balance	346347628	769511867	113808633
	Investment in Govt. Securities	1055680846	904471865	394589670
	Total Deposit	**7768957276**	**7893297672**	**3918076217**
2063/64	Cash Balance	190748210	385940398	130442580
	Balance in NRB	384844510	785688815	380563747
	Cash & Bank balance	575592720	1171629213	511006327
	Investment in Govt. Securities	1242417040	951272430	621973040
	Total Deposit	**10557416461**	**9475451509**	**6625078506**

Table No. – 4.16

Cash and Bank Balance Ratio

Fiscal year	KBL	MBL	SBL
2060/61	14.25%	14.91%	5.56%
2061/62	7.07%	13.08%	5.31%
2062/63	4.46%	9.75%	4.49%
2063/64	5.45%	12.36%	7.71%
Average	**7.80%**	**12.52%**	**5.77%**

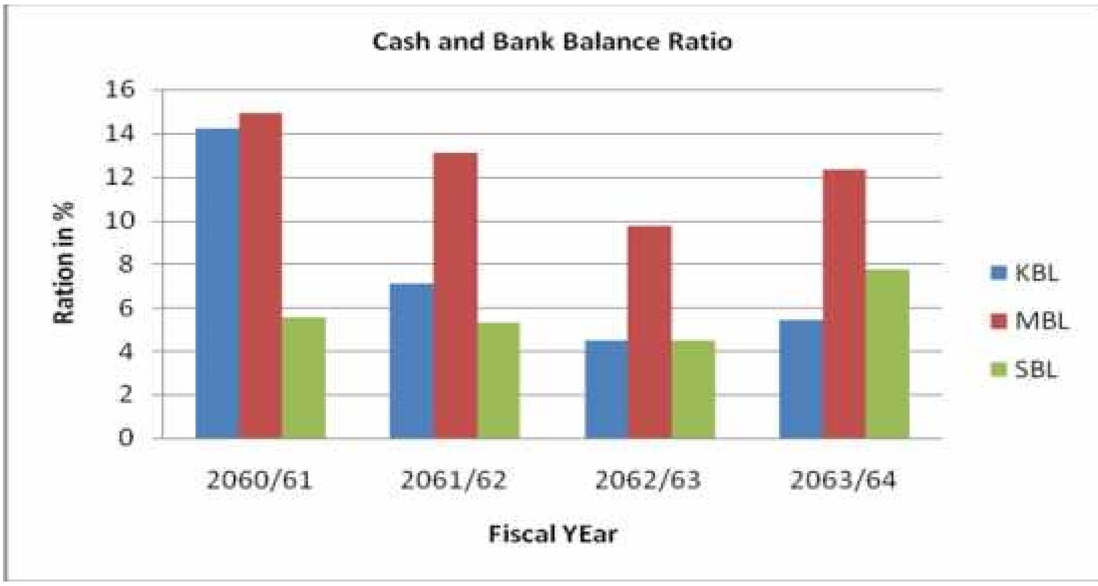

Figure No. - 4.11

This ratio reflects the banks ability to pay short term and immediate obligation to the average customers. MBL has the highest average ratio of 12.52% among the three banks, whereas SBL has the lowest of 5.77%. We can see the ratios are in decreasing term in all the three banks up to fiscal year2062/63 which shows that the banks are trying to manage their cash effectively so that their won't be extra idle cash and the obligation should also meet. But ratio of all banks is increased from fiscal year 2063/64 which means they are trying to increase liquidity.

4.5.3 Investment in Government Securities Ratios

Government securities are known as liquid assets, which can easily converted into cash to meet the short-term obligation. That's why every commercial bank has to invest their certain amount in government securities

Liquidity is a sensitive factor for the banking sector. All the banks all over the world invest a significant amount of total deposit on the government securities in their respective central banks to ascertain to meet the liquidity shortages in the banks incase of huge unanticipated withdrawals. Banks are highly encouraged to invest in the government securities because it is as good as liquid assets and there is no risk in government securities. NRB has not laid down any specific rule regarding the percentage to be invested in the government securities like treasury bills, development bonds, and national saving bonds. The ratio is calculated by dividing the investment in government securities by total deposits. Mathematically,

$$\textbf{SRR} = \frac{\textbf{Investment in Government Securities}}{\textbf{Total Deposit}} \times 100\%$$

Table No. – 4.17

Investment in government Securities

Fiscal year	**KBL**	**MBL**	**SBL**
2060/61	12.51%	2.58%	3.26%
2061/62	17.86%	2.27%	11.22%
2062/63	14.34%	11.46%	10.17%
2063/64	11.77%	10.04%	9.39%
Average	**14.12%**	**6.58%**	**8.51%**

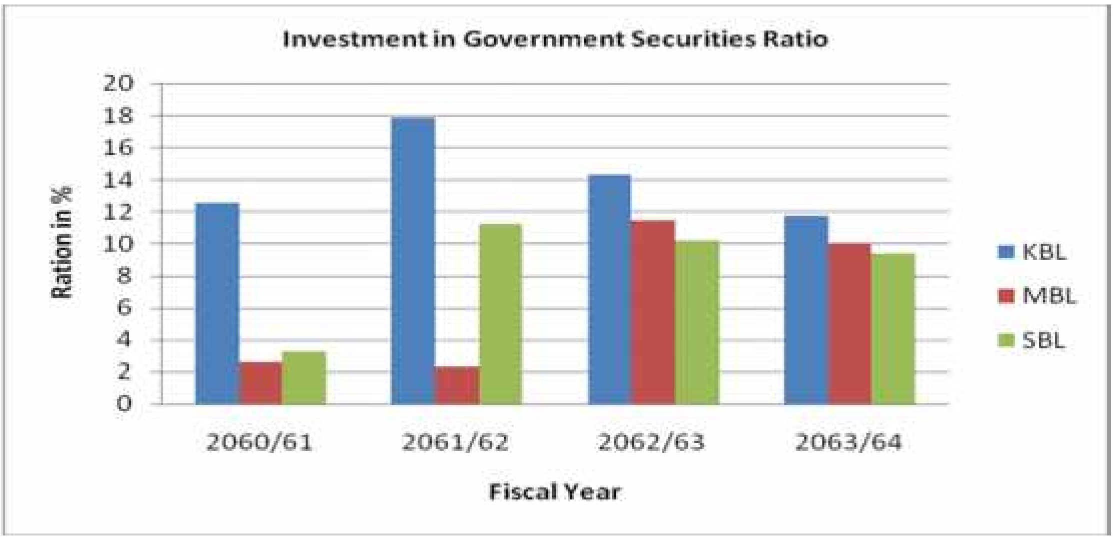

Figure No. – 4.12

Government securities are easily liquid able assets and to meet shot term obligation. The banks invest some percentage of their deposit in these risk free assts. The above calculation shows that KBL has invested the highest proportion of its deposit in the government securities i.e. 14.12%. In MBL the percentage shows raise from 2.58% to 10.04% from year 2060/61 to 2063/064 which is very vast. This scenario shows that the banks are adopting their own initiation and investing in government securities accordingly. Generally the investment depends on the combination of deposits the bank has. The more the percentage of fix deposits higher the investment in government securities. The higher percentage shows the better liquidity position of the bank.

4.6 Trend Analysis

A trend is a series of situations that follows a sequence. A widely and most commonly used method to describe the trend is the method of least square. Under this, a trend line is fitted to the data satisfying the conditions. It is used to describe the trend of any variable whether it increases or decreases with the passage of time. For the trend analysis of different banks, the following heads have been considered:

- Total Deposit Analysis
- Investment Analysis
- Loans & Advances Analysis
- Total Profit

4.6.1 Total Deposit Analysis

Deposits are called the products of any bank. It represents the liability of the banks since they are borrowed from depositors or the general public. The amount is used by bank to provide the loan and to invest in the other project from where the bank can earn interest, dividend, and bonus etc. deposit is the main source of fund that the bank usually uses for the generation of profit. So, the efficiency of the bank depends of its ability to attract deposits. Total deposits of the three bank is shown in the table below

Table No. – 4.18

Total Deposits

Bank	2060/061	2061/062	2062/063	2063/064
MBL	2754.63	5586.80	7893.30	9475.45
KBL	4807.94	6268.95	7768.96	10557.42
SBL	1291.31	2461.92	3918.08	6625.08

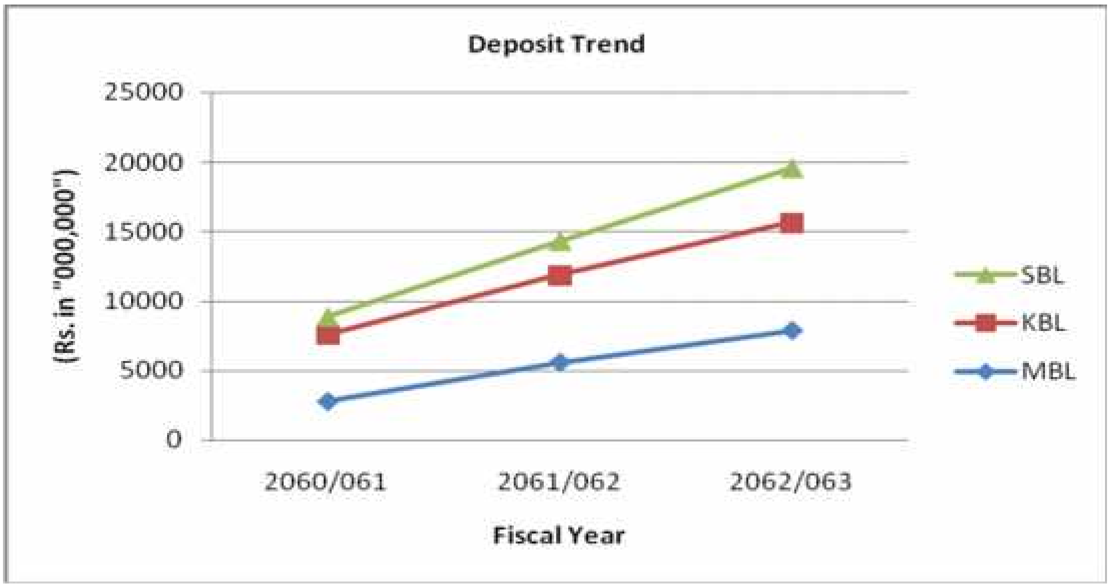

Figure No. – 4.13

Above graph shows that KBL has the highest depositor's rate in all four years except fiscal year 2062/063. MBL is following the same strategy whereas SBL has recorded an increasing trend through four years and is more aggressive.

4.6.2 Investment Analysis

Investment is made for the diversification of risk factor and for maintaining profit. Investment features profit per return, risk, wealth, speculation and time. To maintain profit level, banks invest in different sectors like shares, bonds, debentures and other financial and money market instruments, Investment analysis is explained below:

Table No. – 4.19

Total Investment

Bank/Year	2060/61	2061/062	2062/063	2063/064
MBL	274.41	468.61	1190.83	1278.47
KBL	983.50	1190.27	1394.95	1678.42
SBL	420.50	286.62	650.98	865.19

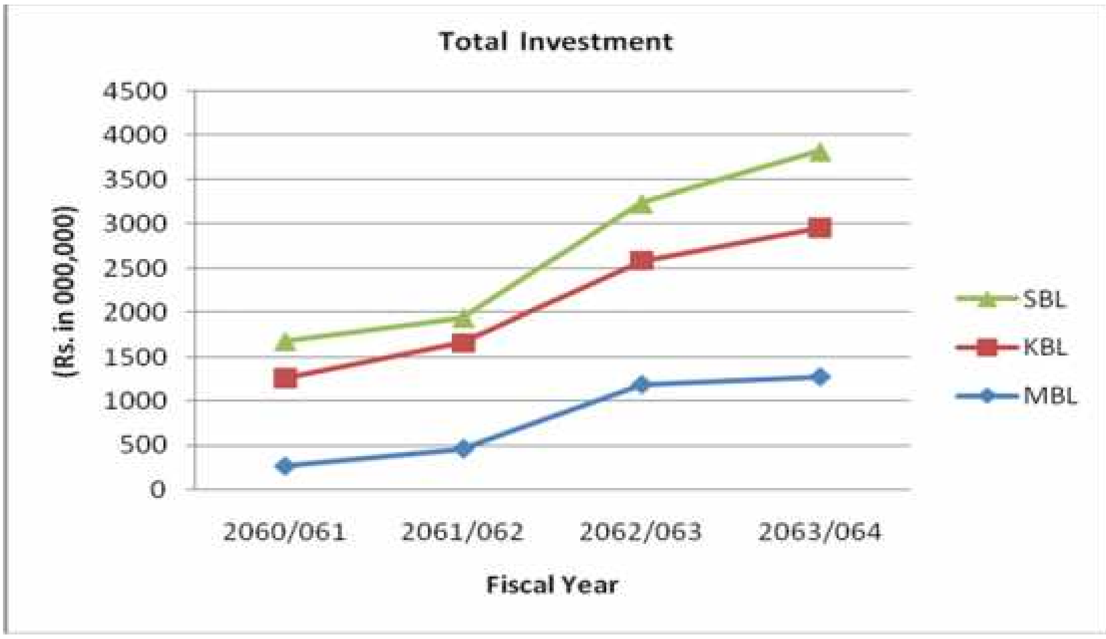

Figure No. – 4.14

Above graph shows the investment trends of three respective banks. We can see that KBL has the highest rate of investment other than two banks whereas followed by MBL and SBL respectively. All banks are in increasing trend of investment.

4.6.3 Loans & Advances Analysis

Loans & advances are another basis of trend analysis. These are one of the most important functions of the commercial banks. Profit maximization can be done by giving loans at higher rate than the offered rate of their deposits.

Table No. – 4.20

Loans & Advances

Bank/Year	2060/61	2061/062	2062/063	2063/064
MBL	2493.11	5061.43	6068.83	7129.89
KBL	3,697.98	5590.93	6891.86	8929.01
SBL	1,484.30	2,570.78	3,789.12	6222.59

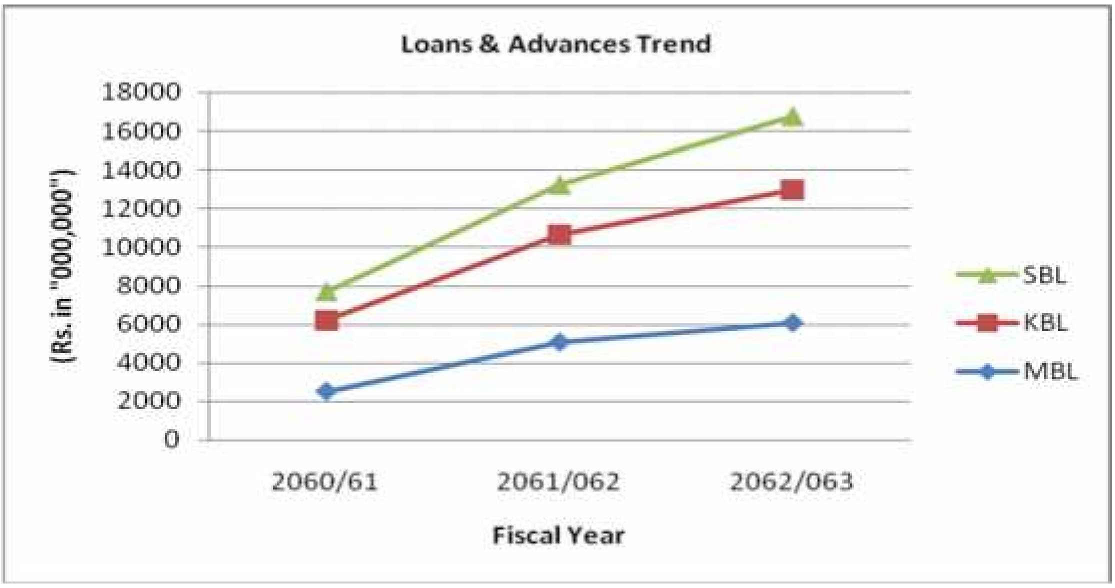

Figure No. – 4.15

Above graph indicates loan conditions of all banks are in increasing trend whereas SBL has a high aggressive policy of increasing loans & advances.

4.6.4 Profit Analysis

Profit is the return for taking risk on certain assets. Investors may buy and sell financial assets in order to earn returns on them. They expect certain rate of return from the investment capital which is its profit. Its sources are interest spread between loans and deposits, commissions, investment and other earnings.

Table No. – 4.21

Profit

Bank/Year	2060/61	2061/062	2062/063	2063/064
MBL	46.69	84.87	134	74.09
KBL	48.69	87.88	103.67	170.26
SBL	(31.11)	70.28	65.25	95.31

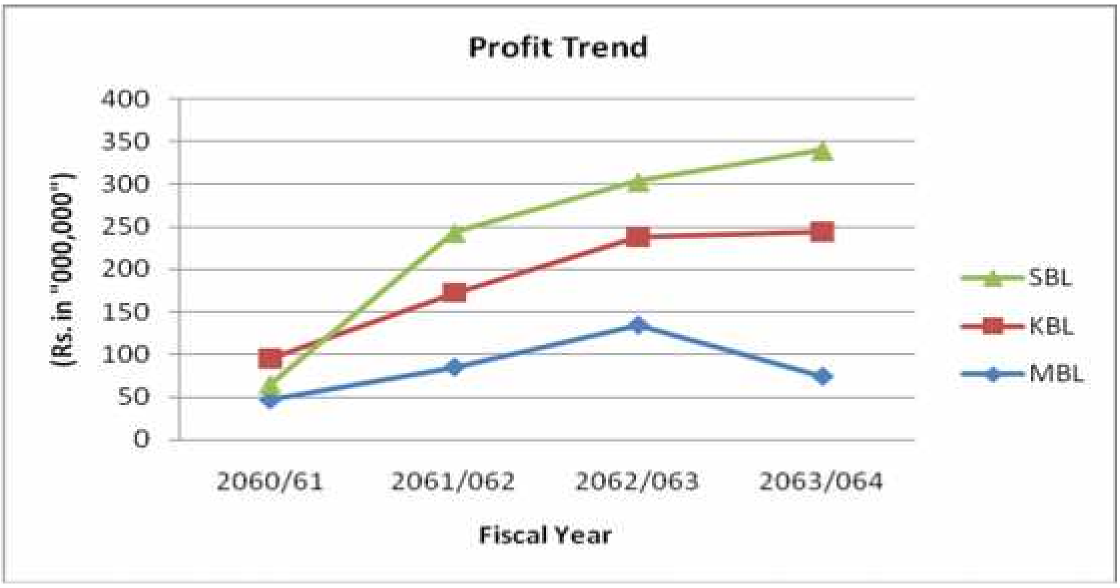

Figure No. - 4.16

The above figure shows the profit of KBL and SBL is in increasing trend whereas profit of MBL is decreased from financial year 2062/063. KBL is able to earn impressive profit as per increased in investment and loans & advances. Although, MBL has invested its capital in different productive sector & loans & advance, it is not able to achieve desired profit. Its may be bad loans & advances as well as not invested in reliable & profitable sector.

4.7 Summary of Major Findings

The main findings of the study are derived on the basis of analyzing financial data of the relevant banks which can be enlisted as follows:

- The capital adequacy ratio of all three banks has more than the prescribed values of NRB, which is 11%. However, SBL has the highest average capital adequacy ratio of 14.17%. It shows that the bank has good capital adequacy condition which protects to the depositors. Maintaining higher CAR is good for SBL but more of its fund seems to be tied up. Probably this might be one of the reasons why SBL is having less net profit after tax among three banks? SBL can use it's over fund in more productive & profitable sector which helps to bank increasing the profit.

- The performing loan of KBL & MBL seems to be good from the fiscal year 2060/61 till 062/63. They have maintained properly their loan investment out of total credit. But in fiscal year 2063/064 MBL is not able to invest in proper sector & may be management is not aware about their loan investment that's why it is decreased in comparison of previous fiscal year. Therefore, management of MBL seems to be analyzed properly before release loan to the prospective clients. Where as KBL has invested its loan in proper sector and Performing loan ratio is in increasing trend. SBL has doing very good in the current period. Currently, SBL has invested its loan in proper sector. Therefore, it's performing loan ratio is extremely increasing trend which shows that management of SBL are more efficiently able to identify the proper investment sector as well as collecting loans from the clients. SBL is more concentrated & stringent while issuing loan.

- Non performing loan ratio of all three banks is in decreasing trend which shows the better credit & risk management. SBL has been trying to reduce its non performing loan which is good symbol to the bank. The average non performing loan ratio of MBL is the lowest among all which is 0.70% which means MBL is most efficient in managing its loan & advances. But in current fiscal year 063/64 NPL of MBL is increased. Therefore management of MBL should take the immediate precaution towards this increment of NPL. SBL seems to be the most efficient in bringing down its non performing loan ratio.

- The loan loss provision ratio of MBL is higher than KBL & SBL. MBL has good capacity to bear the non-performing loan loss. It shows that the bank is much more prepared to encounter the losses incurred from non-performing loan but due to high provision of loan loss of MBL, capital has been staying idle which is loss for the stakeholders because it does not help to make best use of capital and returns to the company. Other two banks have maintained loan loss provision in safe side but LLP of SBL is in increasing trend from fiscal year 2062/63 but non-performing loan ratio is in decreasing trend. Therefore, capital of SBL has been staying idle from fiscal year 2062/63. Loan loss provision of KBL is maintained properly.

- Average management efficiency ratio of all three banks has well. The ratio of SBL in the fiscal year 2061/62 is negative as the bank suffered loss in the year. SBL has the highest average Management Efficiency ratio i.e. 676458.5, which we can understand that SBL is able to mobilize its human resources efficiently because the no. of staffs is being less than other two banks.

- Average EPS of KBL is the highest among other banks. It shows that the good performance of KBL in comparative to other but it is not still in satisfactory level of EPS. Even there is not standard value prescribed for EPS but higher value is preferable. So, all the banks need to be increased their profit volume.

- Price earning ratio (P/E ratio) of MBL has the highest value of average ratio which is 29.28 as well as highest P/E ratio in latest fiscal year. It shows the public have more trust on the bank’s earnings as well as its performance.

- Average ROA of MBL & KBL is greater than 1% which shows that they are utilizing their assets more efficiently than SBL. ROA of SBL is below 1% due to loss in fiscal year 2060/61. However, none of them have been able to achieve satisfactory level of ROA.

- Average ROE of all banks have better position. KBL has better return on equity in comparison to other two banks. But still, this position of ROE is not satisfactory level.

- All banks are able to maintain average CRR of 5% as prescribed by NRB. SBL has maintained very properly this ratio in all year throughout the study but ratio of MBL & KBL shows very fluctuating trend. Highest average ratio of MBL indicates that more cash is idle in bank. As NRB wants bank to maintain CRR on weekly basis the above shown CRR may not reflects actual position of banks. The provision of showing weekly CRR at the year end in the annual report is thus required.

- Cash & Bank balance ratio reflects the banks ability to pay short term and immediate obligation to the average customers. MBL has the highest average cash & bank balance ratio among other two banks. This shows the MBL has enough liquidity. SBL has the lowest average cash & bank balance ratio.

- Average Investment in government Securities Ratio of KBL is the highest than other two banks. KBL has invested high proportion of its deposits in the government securities. MBL is also increasing its deposits investment in government securities. Investment in government securities of SBL shows moderate in comparison of MBL & KBL. The higher percentage of investment in government securities ratio indicates the better liquidity position of the banks.

CHAPTER-V

SUMMARY, CONCLUSION & RECOMMENDATIONS

The preceding chapters have discussed and explored the facts and matters required for the various parts of the study. Analytical part, which is the heart of the study, markets comparative analysis of various aspects of commercial banks is done by using some important financial as well statistical tools.

Having completed the basic analysis required for the study, the final and most important task for the research is to enlist findings of the study and recommend for further improvement. This would be meaningful to the top management of the banks to initiate action and achieve the desired result. The objective of the research is not only to point out errors and mistakes but also to correct them and directions for further growth and improvement.

Banking is one of the most important economic drivers of the country. Unless the sector is well developed the economy of any country can not be uplifted. It is the sector which mobilizes money from surplus sector to deficit sector. The surplus money has to be utilized in productive sector. Banks are one of the authorized sectors to collect surplus money as deposit and mobilize the collected money as loan and advances. They also finance different scales projects, business houses, retail banking, technological innovations, small sector business, remit money, issue letter of credit etc for overall development of economy. Therefore there are different factors also which influence the functioning of the banks, namely internal and external factors.

The internal factors are controllable where as the external factors are beyond the grip of control. To ensure the control of external as well as internal factors and to ensure the smooth functioning of the banks there are different bodies in the country viz. Nepal Rastra Bank in Nepal. The government is another body to regulate. For this purpose, NRB and government have made different regulatory policies in Nepal.

Technological innovation, adoption of the technology, efficiency of the man power is the other factors which influence the functioning of the banks. Even though Nepal is not having stable government, perfect regulatory statement of NRB, secured investment environment banking sector in Nepal is growing. Despite of their capability to adopt with recently innovated technologies they are generating profits. Though the level of profit is not too high seeing the adverse environmental factors it is satisfactory.

5.1 Summary

The study “A comparative study on CAMEL analysis of MBL, KBL & SBL” has been prepared to fulfill the requirement of Master’s of Business Studies (MBS) program. This study is mainly based on the annual report provided by the concerned companies. While sampling the companies for study, three commercial banks working in same field, similar nature & almost established in same generation have been taken as sample. These banks are established totally by Nepalese promoters.

KBL, MBL and SBL, are almost of same generation banks. They came into operation almost during the same time almost with the same level of capital and struggled to grow for similar time period. All the three banks had to struggle to grow during such a time when the country itself was suffering from political crisis. Therefore the achievement which they have made till now is remarkable. If we compare the banks with each other we can find them in different position which is because of their managerial competencies but none of them are bad in themselves. Their corresponding profit volumes market prices, loan volumes, deposit amount, technological adoption are the evidences to these facts. If the situation turn better they have got good future. But with the expanding globalization the competition volume is also growing so they have to prepare themselves not only for growing but also to compete with the international banks. For this the capital volume, technological approach, managerial efficiencies, marketing strategies etc have to be improved.

To conclude this study, the whole study has been divided into five chapters of the different aspects. The summary of each chapter can be presented in each paragraph.

First Chapter “Introduction” provides the brief introduction of the study, where I have described the background of the study, origin of bank in Nepal, concept of commercial bank & its functions. In this chapter, the objectives of the study are to observe the financial performance, analysis and compare financial performance of MBL, KBL & SBL.

In the second chapter, literature related to the financial performance has been reviewed. By reviewing some previous studies, many inputs can be taken for the study and other researcher can also take advantages from this section.

Third chapter explains about the methodology of this study. I have mostly used the secondary data. This study covers the four years data of the company and financial tools are used, which included ratio analysis.

Fourth chapter is data presentation & analysis. Data analysis tools mentioned in the third chapter is used to analyze the data in this chapter. Various ratios that are related to financial performance of the company have been used to analyze the financial performance of the MBL, KBL & SBL. I have followed the CAMEL approach for the performance analysis of the banks and which has been done through ratio analysis, trend analysis and graphical presentation. Capital, assets, management, earning and liquidity position of the bank have been analyzed and compared to get the idea about the financial position of these banks.

5.2 Conclusion

The study shows that all the selected banks are performing well under the NRB regulations despite of having unstable political situation of the country. After going through the overall study and findings plus the financial reports, I found that all the three banks are the well managed with good capital structure and sound performance. The banks do have an encouraging financial trend of the fiscal year generating profit, providing dividends to shareholders and incentive bonus to the staffs.

The study shows that the capital adequacy ratio is more than 11% as prescribed by NRB maintained by all banks throughout the study year. It seems very good condition of capital adequacy in the banks, which will protects to its depositors holders. Average capital adequacy ratio is soundly maintained by Kumari Bank Ltd. & it is followed by MBL & SBL.

The asset management ratio reveals that SBL has the highest ratio in fiscal year 2063/064 indicating proper utilization of assets on good loans. Similarly in the case of non-performing loans i.e. SBL showed the lowest rate of non-performing loan. Increment in non-performing loan means decrease in net profit. Performing loan is also seems good all of banks. However, in the fiscal year 2063/064, SBL is able to identify the proper investment sector & collecting loans from the clients in comparison to other banks. Non performing loan of SBL is in decreasing trend. In case of MBL & KBL is quiet fluctuating trend. Loan loss provision is made in sufficient volume by all banks to encounter the possible losses incurred from the non-performing loan. Averagely loan loss provision is maintained properly by KBL, which indicates the capital of KBL is not staying ideal than other two banks.

Management efficiency ratio of all banks has well. Average Management efficiency ratio of SBL is good even loss incurred in fiscal year 2060/061, which shows SBL, is able to mobilize its human resources efficiently. I have found Management of MBL & KBL is good than KBL.

In this current unstable political situation of Nepal, EPS of all banks is good. KBL is able to earn higher average EPS than MBL & SBL. But it is not satisfactory level of EPS. In terms of average ROA, MBL has able to utilize its assets to generate profit than other banks. But KBL has the highest ROA in the latest year reaching to 1.43%. Average ROE of KBL is also high than other banks.

The CRR of SBL is above 5% which is above obligation of NRB in all year through out the study period. The average CRR of all banks are above 5% and highest CRR is of MBL i.e. 6.66%. But MBL has failure to maintain CRR of 5% in fiscal year 2060/061 where as KBL has highest CRR in the same year, but KBL fails to maintain CRR as prescribed by NRB from the fiscal year 2061/062 to till the study period as well as average cash & bank balance ratio of MBL is the highest than other banks i.e. 12.52%. High CRR and cash & bank balance ratio ensure sound solvency position of the bank. KBL has invested the highest amount of deposit in government securities. It indicates that KBL has high liquidity over that MBL has the lowest liquidity position. SBL has medium liquidation position.

The price earning ratio of MBL is the highest in the fiscal year 2063/064 i.e. 68.74 which is very beneficial for the shareholders followed by SBL & KBL i.e. 48.99 & 36.56 respectively.

The existence of different branches in different parts of the country has played a major role in bringing the bank closer to its people providing necessary financial and technical assistance to the people. It is not possible for any bank to boost up its campaign of credit disbursement as desired in the absence of various branches in unlimited areas. But these banks have succeeded in doing this critical and difficult task with the innovation of various branches in different parts of the country.

5.3 Recommendations

On the basis of analysis made and conclusion drawn above some important recommendations have been made here which will be beneficial for the banks to over come their problems and inefficiencies if applied? They will help the banks to improve their future performances.

Capital Adequacy

- Even though all the banks are having CAR as prescribed by NRB i.e. 11%, SBL is seemed to be maintaining higher average CAR which is 14.17%. That is more appreciable; however higher CAR tied up fund can be used in other more productive sector. But all the banks have maintained CAR use of 11% to 12% in fiscal year 2063/064, which is managing well by all banks.

Assets quality

- SBL has higher none performing loan to total loan ratio in the initial year. Even though the trend of ratio seems to be declining rapidly, the bank is suggested to work more on managing credit. Whereas NPL ratio of MBL has increased in fiscal year 2063/064. It is suggested to the bank that takes immediate precaution towards the managing credit.

- MBL seems to be maintaining very higher loan loss provision to non performing loan. Even though maintaining higher ratio is good but this signifies the bank's higher volume of good loan as well. The same today's large volume of good loan can be turned into bad loan tomorrow, if not handled properly. So the bank is suggested to work more in recovering its good loan quickly.

- In comparison to other banks SBL has the highest ratio of loan loss provision to total non-performing loan in fiscal year 2063/064 i.e. 450% where as very low non-performing loan ratio in the same year. This indicates that the chance of good loan converting in bad loan is high otherwise they can reduce the provision & invest it in a profitable project. Bank has higher volume of non performing loan. So the bank is suggested to work on reducing its non performing loan.

Management Efficiency

- Management Efficiency Ratio of all banks has in fluctuating trend. Average management ratio of SBL seems to be high than other banks which is followed by KBL. So it is suggested to banks to work on employee efficiency increasing program. Security arrangement of all the banks is normal. So they all are recommended to arrange higher security provision. In KBL, there is problem of parking & very noise pollution of working environment. It is suggested to KBL improve on this problems to increase the return of the company.

Earning Capacity

- Average ROA of MBL & KBL is greater than 1% which shows that they are utilizing their assets more efficiently than SBL. ROA of SBL is below 1% due to loss in fiscal year 2060/61. However, none of them have been able to achieve satisfactory level of ROA. Their ROA is in fluctuating trend. They are not able to maintain rigid and progressive position of ROA. Average ROE of all banks have good position. KBL has better return on equity in comparison to other two banks. But still, this position of ROE is not satisfactory level.

- So, all banks are highly suggested to mobilize its assets more in productive sector by making efficient portfolio and increase the volume of total return.

Liquidity

- Liquidity for KBL is not sufficient as prescribed by NRB of 5% from the fiscal year 2061/062. It is recommended to maintain at least 5% CRR to meet the short term obligation where as SBL has properly maintained the CRR of 5% in all year and followed by MBL. Highest CRR ratio of MBL in fiscal year 2063/064 indicates more cash is idle in bank. SO, it is suggested to maintain as prescribed by NRB. Cash & Bank balance ratio reflects the banks ability to pay short term and immediate obligation to the average customers. MBL has the highest average cash & bank balance ratio among other two banks. This shows the MBL has enough liquidity. SBL has the lowest average cash & bank balance ratio.

- Average Investment in government Securities Ratio of KBL is the highest than other two banks. KBL has invested high proportion of its deposits in the government securities. MBL is also increasing its deposits investment in government securities. Investment in government securities of SBL shows moderate in comparison of MBL & KBL. The higher percentage of investment in government securities ratio indicates the better liquidity position of the banks.

Further more,

- The Bank should improve its customers service so the customers are motivated to deposit their surplus resulting in incremental profit

- The Bank should not only copy the product such as Credit Cards ATM machine, Master Cards etc of international marketing but also should launched the product that suits the requirements of the common public in Nepal having there per capita income in an around $200

- The bank should give emphasis to all its customers equally to increase its deposits. The bank should not only run after high income earners and provide service in and around urban areas, but also should provide service to people living in rural areas because large chunk of Nepalese population live in rural areas.

- In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing functions as it is an effective tool of attracting and retaining customers. For this, the bank should formulate new strategies of serving customers in a more convenient and satisfactory way.

- The bank should not escape from its overall social responsibility.
- The Bank should provide incentive to the employee in order to motivate them in their performance which leads to improve the overall bank performance.
- The project oriented approach has to be encouraged in lending business of the bank in which security is not necessary, risk is high but the project is important from the point of view of national economy. This gives rise to the bank and economy as a whole.
- The bank is recommended to open its branches not only in the urban areas, but also in the rural areas of the country for boosting up the lower level people.

After analyzing research findings & interview, the Nepali Banking sector has to take care of the following factors:

Nepali banking sector is primarily focusing on plain vanilla banking products such as loans, deposits, letter of credits, guarantees, remittances, etc. there are value-added products like funded-risk participation and private labeling in the trade finance area, options and other derivative products in global market/ treasury area and remittance securitization in Nepal's most lucrative area of remittance. If our South Asian counterparts like Bangladesh, Pakistan, Sri Lanka and India are aggressively using these products, there is no reason why we cannot replicate these products in Nepal.

Nepal does not have electronic clearing system for realization of cheques and drafts on a real time basis. On the treasury front, unavailability of dealing room at the central bank and electronic dealing screen at treasuries of banks can be considered another hindrance. Although, few banks have offered internet banking services, we still have along way to go.

The major problem that our banking sector is facing today has been due to high percentage of non-performing loans, the major cause for which is non-compliance of basic credit principles. Many other issues of non-compliance of corporate governance have come into light. Although this sector is comparatively more professional and transparent than other sectors, still there are some major problems which we need to overcome.

This is a structural problem and it is due to lack of adequate knowledge among bankers. Across the world, banking and finance has already evolved and matured as a separate academic discipline. It has become an absolute necessity for us to start something concrete on this front.

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Capital &Liabilities	**2063/2064** Amount	**2062/63** Amount
1.Share Capital	600000000	500000000
2.Reserve & Surplus	193709939	103141455
3.Debenture & Bond	-	0
4.Loans & Advances	430000000	181150000
5.Deposit	6625078506	3918076217
6.Bills Payable	0	0
7.Proposed Dividend	4736842	0
8.Tax Liabilities	5203446	1112820
9.Other Liabilities	95935742	53454956